CHAPTER FOUR

IRON AND STEEL INDUSTRY IN PUBLIC SECTOR IN INDIA

The Public enterprises, under the Central Government, classified into seventeen categories, as shown in the previous chapter cover large areas of economic activity in the country. The attempt to deal with all the industries in detail might tend to blur its purpose, hence complete coverage has to be sacrified. We have therefore, selected Iron & Steel Industry for detailed examinations. The bias in this study largely reflects the important role of Iron and steel industry, heralded as a giant step in the direction of a modern economy. An appraisal of a specific industry i.e., Iron and steel, placed at the top in terms of size, importance, investment and employment, could help to understand the general issues facing the public sector industrial economy.

The need to extend the state sector was embodied in the industrial policy Resolutions of 1948 and 1956. In pursuance of the Industrial Policy Resolutions, the government of India launched on an ambitious programme of steel development in the country.

4.1 Definition : The boundaries of steel industry are difficult to define because of the presence of secondary producers. The

present enquiry is concerned with the integrated steel mills[1*], i.e., Bhilai, Rourkela, Durgapur, Bokaro, the Indian Iron and steel company and Alloy steel plant. The major products of iron and steel are pig iron, steel ingots, blooms, billets, slabs, sheets, tubes, rails, structurals, and wire, serving as inputs to a net work of industries like automobiles, heavy machinery, and transportation equipment etc.

4.2 Establishment of steel mills :

In pursuance of the industrial policy Resolutions, the integrated steel mills came to be established at Rourkela, Bhilai, Durgapur and Bokaro. The Indian Iron and steel company has been brought under complete ownership of the Central Government with effect from 17-7-1976. The salem steel plant, and Vizag Steel Plant, are under construction. The Steel Authority of India Limited, a holding company, set up in 1973, is entrusted with the responsibility of implementing the basic policies of Government in the area of iron and steel.

The first major thrust in Central Government investments in industries was in Iron & steel industry. Iron and steel industry has absorbed massive resources as can be seen from Table IV-I.

1* An integrated steel mill manufactures steel in all its stages from the initial of reduction of iron ore to the final stage of rolling of finished steel.

4.3 <u>Growth of Investment in HSL</u> :

Prior to the establishment of SAIL, i.e. 1973 the integrated Steel Mills like Bhilai, Rourkala, Durgapur and Alloy Steel Plant were under the direct control of Hindustan Steel Limited. The volume of investment in paid up capital and borrowings in HSL went upto Rs. 606.1 crores in 1960-61 from Rs.655 crores in 1955-56 as shown in table IV.1 and gradually reached Rs. 1211.75 crores in 1977-78. The investment in HSL accounted for 63 P.C. of the aggregate investment in the public sector in the year 1960-1961 and declined to 9 P.C. in 1977-78. It implies that investment in other public enterprises increased to a substantial degree, with the progress of industrialization.

4.4 <u>Output</u> : The growth of any industry is reflected in output figures. Table IV.1 indicates upward trend in the output of Pig Iron. The output of Pig iron rose to 75.29 lakh tons in 1972-73 from 44.17 lakh tonnes in 1960-61, an increase of 70 P.C. Table IV.1 indicates upward trend in the output of steel ingots, and it increased by 103 P.C. during the period of 1960-61 to 1972-73. The output of steel ingots reached, all time record of 58.05 lakh tonnes in 1976-77 as shown in Table IV.1.

The growth of an industry is usually reflected in its turn over. Table IV.1 explains upward trend in the gross

value of sales. The gross turn over increased from Rs. 44.37 crores in 1960-61 to Rs. 1311.59 crores in 1977-78.

4.5 Financial Performances :

It is natural that people want to judge the performance of any enterprise by its working results translated into balance sheet. People are accustomed to the use of financial measures including profit rates. The use of profit rate as a measure of performance is not free from certain limitations.

The nature of profit is a matter of opinion or depends on a point of view. The question arises as to whether profit can be effectively used as an over all sign of efficiency of an enterprise.[2] The profit rates are generally used to measure the performance they are not strictly comparable because of interfirm and inter industry variations in the range of activities and accounting practices and seriously affected by multitude of other factors including protected home market and government price regulation.[3]

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2. A.H.Taylor and H.Shearing, Financial and cost accounting for management. BIES 6th (Ed), 1976. p. 179

3. Cockerill - The Steel Industry, Cambridge University. p.101.

4.6 Return on capital employed :

The return on capital employed defined as gross profit as percentage of capital employed, is considered an important measure of performance. The return on capital employed, an imprecise measure, can not explain all changes in the numerator i.e. gross profits, and denominator i.e. capital employed, over a period of time. Inspite of its imperfections, its acceptance as a measure of performance is wide spread, because of its general applicability to all industries including service industries.

The performance of the HSL measured in terms of financial returns has not been found to be satisfactory during the period under consideration. The Hindustan steel limited showed negative returns ranging from -0.08 P.C. to -2.42 P.C., for 5 years out of 16 years under consideration, it showed losses. The average rate of return worked out only 3 P.C. during the entire period, from 1962-63 to 1977-78. During the years 1967-68, 1968-69, the Hindustan Steel Limited showed negative returns, and it will be of interest to mention that Indian economy suffered industrial recession during the same period. During the period 1971-72 and 1972-73, the returns in the HSL were negative, during the same period the steel industry suffered losses in U.K.[4] .

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4   The BSC (British Steel Corporation) succeeded in raising
     investment per ton of annual output from $ 7.5 to $ 13.7,
     but coupled with severe restriction on prices, this has
     caused low profit ability to deteriorate steadily and
     losses totalled $312 million in 1971-72.

     Cockrill - the steel Industry - the Cambridge University
                                                        p 55.

The H.S.L. started earning positive returns from 1973-74,
and return on capital employed ranged from 0.23 P.C. to
11.34 P.C. reached its peak in 1976-77. The ROCE, return
on capital employed, appears to have made smart recovery from
1973-74.

The performance of the Steel Authority of India Limited,
in terms of ROCE has not been satisfactory during the period
under consideration.

4.7 Implications of Low Profitability :

While the iron and steel industry has absorbed large
amount of capital resources, the returns from it have been
rather disappointing. In a capital scarce country, an
industry should yield an adequate return on the capital
invested. The Planning commission have laid down 12% return
on capital employed as a norm. Judged against this norm,
the performance of the iron and steel industry is definitely
unsatisfactory.

The extent of the shortfall can be more precisely
measured. In table IV-1, capital employed is shown, 12%
per cent return on it would constitute the amount of desired
gross profits. The actual profits earned and the desired
profits are shown in table IV-2. The difference between the
desired profits and actual profits shows the amount of short-
fall and is shown in table IV-2. It can be seen that the

Table IV-1

Growth of Hindustan Steel Limited

Year	Paid up capital Rs. crores	Loans outstand-ing. Rs. crores	Total(a) Invest-ment Rs. crores	Output of Pig Iron 000 tons
1954-55	0.05	1.50	1.55	-
1955-56	0.05	6.50	6.55	-
1956-57	5.00	20.50	25.55	-
1957-58	155.71	20.50	176.26	-
1958-59	300.00	73.10	373.10	-
1959-60	300.00	218.10	518.10	-
1960-61	300.00	306.10	606.10	1568
1961-62	300.00	367.10	657.10	2235
1962-63	367.00	357.10	724.10	3063
1963-64	447.00	357. 10	804.10	3427
1964-65	528.00	357.10	885.10	3556
1965-66	528.00	432.10	960.10	3966
1966-67	528.00	500.50	1028.50	3883
1967-68	545.00	531.50	1076.50	3975
1968-69	557.00	541.83	1098.83	4326
1969-70	557.00	505.81	1062.81	4493
1970-71	557.00	468.93	1025.98	4269
1971-72	594.00	433.70	1028.70	4056
1972-73	610.00	409.68	1020.68	4556
1973-74	623.58	373.50	997.08[1]	4870
1974-75	664.22	360.32	1024.54	5152
1975-76	727.92	380.44	1108.36	5795
1976-77	819.85	389.18	1209.03	7216
1977-78	942.88	268.87	1211.75[2]	6703

Table IV-1 (contd.)

Year	Output of Steel In gots 000 tons	Gross value of sales Rs. crores	Capital employed Rs. crores	Return on capital employed percentage
1954-55	-	-	-	-
1955-56	-	-	-	-
1956-57	-	-	-	-
1957-58	-	-	-	-
1958-59	-	-	-	-
1959-60	-	-	-	-
1960-61	776	44.37	558.49	-
1961-62	1605	79.30	604.60	-
1962-63	2491	129.45	631.72	-0.96
1963-64	2915	182.73	663.45	-1.98
1964-65	3116	204.98	634.73	3.28
1965-66	3437	233.66	693.24	2.98
1966-67	3549	230.94	757.00	0.23
1967-68	3447	250.87	858.99	-1.46
1968-69	3720	317.77	884.61	-1.24
1969-70	3780	381.55	880.97	2.14
1970-71	3812	401.86	817.76	2.96
1971-72	3476	387.29	827.29	-2.42
1972-73	4008	503.19	761.92	-0.08
1973-74	3769	567.85	1124.29	3.96
1974-75	4008	770.44	822.04	9.08
1975-76	4338	834.84	894.93	8.47
1976-77	5852	1257.70	988.40	11.34
1977-78	5805	1311.59	853.34	8.70

a) Investmentis defined as paid up capital plus working capital. outstanding loans

1. G.C.Agrewal - Public Sector Steel Industry in India-p.212

2. Bureau of Public Enterprises annual reports.

amount of shortfall was very large till 1973-74. Since then, it has tended to be small. Between 1962-78 in the aggregate the shortfall between desired profits and actual profits turned out to be Rs. 1125 crores.

The question of profitability may be put in another way. By how much should the sales revenues have been larger, to enable the HSL to earn the desired rate of profit ? The short fall divided by gross value of sales shown in table IV-1 for the particular year in question tells us the percentage by which the gross revenues should have been larger if the HSL were to earn 12% profit rate on capital employed. Thus for the year 1962-63, the shortfall was Rs.81.87 crores and gross sales revenue was Rs. 129.45. In this case sales revenues should have been larger by 63.24%. That is equivalent to saying that the prices of the products of the iron and steel industry should have been higher by 63.24% in 1962-63. It is interesting to see that in the earlier years, the required increases in prices of the products were of a high order but on the whole required increases show a declining trend with the passage of time. Thus in 1962-63, the required increase was 63.24%, in 1963-64, it was 50.75% and this came down gradually to 15.92% in 1973-74 and during the subsequent it remained at less than 5% figure. This would imply that gradually the pricing policy for the iron and steel industry products has tended to become more realistic.

Table IV-2

Calculation of desired profits and the shortfall and the required increase in prices of the products of the Iron and Steel Industry Rs. in crores.

Year	Amount of profit if capital Employed were to earn 12% return.	Actual Profits earned.	Shortfall that is difference between the desired and actual profits.	The percentage by which the sales revenue and prices of the products should have been higher.
1962-63	75.81	- 6.06	81.87	63.24
1963-64	79.61	-13.13	92.74	50.75
1964-65	76.17	20.82	55.35	27.00
1965-66	83.19	20.66	62.53	26.76
1966-67	90.84	1.74	89.10	38.58
1967-68	103.08	-12.54	115.62	46.08
1968-69	106.15	-10.97	117.12	36.86
1969-70	105.72	18.85	86.87	22.77
1970-71	98.13	24.21	73.92	18.39
1971-72	99.27	20.02	79.25	20.46
1972-73	91.43	0.61	90.82	18.05
1973-74	134.91	44.52	90.39	15.92
1974-75	98.64	74.81	23.83	3.09
1975-76	107.39	75.80	31.59	3.78
1976-77	118.61	112.08	6.53	1.00
1977-78	102.40	74.24	28.16	2.10

Source : Calculated from Table IV-1.