India's strategic imperatives in 2021 and impact on metals and mining sector

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Key takeaways:

- *Challenging geo-strategic environment requires India to push through more reforms, including in the metals and mining sector*
- *Aggressive targets are needed to deal with COVID-related downturn, climate change and removal of structural deficiencies of the sector*
- *Better center-state alignment will help in pulling out India from its current difficulty. An ambitious yet "common minimum programme" is the need of the hour.*

As 2021 unravels, we see that India is in a tight spot from a strategic angle. A pandemic-riddled economy on one hand and an aggressive northern neighbour on the other, makes for a tough situation. Not to mention edgy South Asian neighbours, unclear alignment with the world's power centres, protests over farm laws and many such others. In summary, it can be said that 2020 has been a wake-up call for India. The second wave of COVID, Afghanistan situation and a threatening third-wave underline that there is no let-up in pressure in 2021 too. The state of India's fiscal deficit is an indicator that India needs to be extremely innovative and aggressive in pulling itself out of the dumps.

Therefore, the rest of 2021 and 2022 will have to be the defining years when India will have to make significant gains in many fields, with quiet but steady resolve. And it is possible.
Let us take an example from one of the leading encyclopedias in the world, which records some interesting facts in the context of the Second World War. The number of "operational" fighters and bombers with the Luftwaffe (German front) in September 1939 was about 2,050 whereas for the Allied nations (Britain, France and Poland), the number was above 2,700. However, by the end of 1939, Germany was producing over 4,700 combat aircraft per annum. In fact, if one sees the way in which Germany ramped up production of combat aircrafts from 1933 to 1939, it holds a lesson for all of us. *

Table 1: Combat aircraft manufactured in Germany between 1933 – 1939

Year	**1933**	**1934**	**1935**	**1936**	**1937**	**1938**	**1939**
No.	0	840	1,823	2,530	2,651	3,350	4,733

Fighters and bombers were a sub-set of 'combat aircraft'

Between 1934 to 1939, the CAGR of Germany's combat aircraft production was 41 per cent. U.S. was hoping against hope that it would not have to enter the war. It produced 2,141 aircrafts (both combat and non-combat) in 1939. Yet in 1944, its annual production peaked at 96,318. That is a CAGR of 114 per cent. War-time aircraft production in Japan and the U.K. in the same period, saw a CAGR of about 45 per cent and 27 per cent, respectively. One can say that these were rich nations in 1939, who had their colonies serving as deep pockets, and could therefore ramp up production. However, in the period from 1939 to 1944, the economies of these colonies did not grow at the same pace. [*]

We are already seeing a very significant thrust in India's resolve to ramp up its progress across various spheres. Liberalisation of labour laws, national monetisation pipeline (NMP), the rapidity and variety of India's missile testing, signing of multiple accords in the North-East, border infrastructure development, push towards theater commands in the armed forces are all indicators of the fact that India's leadership is seized by the singular importance of the situation.

The current situation means that not all sectors will see equal focus, but some will. The government is prioritising supply side measures such as credit availability over demand-side actions like addressing solvency of pandemic-affected people through initiatives like Universal Basic Income. If this trend continues, private consumption might remain low. However, the focus on infrastructure spending (financed by disinvestment and NMP) will keep the steel sector buoyant. Infrastructure and construction sector accounts for over 60 per cent of steel usage.[1] We can already see the start of a capex cycle in the steel and cement sector in India. Growth of steel means growth for a large variety of inputs that go into steelmaking. The non-ferrous sector also has some headroom to grow, especially in downstream value-added products. KPMG in India is a leader in major projects advisory in the metals sector and can be a great beneficiary of this situation.

On the mining side, efforts are on to remove the bottleneck in the sector. Mines are the most important source of non-tax revenue for state governments. With the fiscal deficit after COVID, there is no alternative but to fire on all cylinders. After the de-allocation of coal blocks in 2014-15 and lapse of merchant mining leases in 2020, especially the iron ore blocks in Odisha, production has not come back to what it was prior to the lapse. Some recent reforms carried out in the mining sector in the last one year would help states to put up more mines for auction and to dispose of them quickly. In terms of upcoming reforms, there are several which hold significant promise – like the extension of Coal Bearing Areas Act to non-public sector companies, one-time surrender window for non-operating mines, etc. These will significantly speed up mine operationalisation.

However, these measures alone would not suffice and allow us to compete geo-strategically. India has been constrained for long due to structural issues like logistics inefficiency and huge indirect tax burden (sitting outside GST) which has prevented our mineral sector from realising its full potential. KPMG in India has worked with a variety of clients to resolve these issues of raw material security, landed-cost economics, etc. by influencing all levers from infrastructure to technology on one hand and from policy to strategy on the other. KPMG in India is a leader in the mining sector advisory space the country. Much more needs to be done in this space.

In the middle of this urgency, climate change and its influence on this sector is ebbing low at the moment. Solar bids are no longer as low as they once were. A recent parliamentary committee observed that India is not utilising its coal reserves adequately and can do more in this regard. Power demand is soaring, and it looks difficult that a replacement for coal can be found in the short-term for India. Consequently, prices are quite high. However, the call to action in this field has transmitted effectively from the government to the corporates who are giving due importance to the sustainability agenda. Some of the de-carbonisation and sequestration actions being seen in the metals and mining sector will make it a clear leader in this field over others in the next five years.

While there is all-round recognition of the serious challenges and the need for speed, it is not easy in a democracy to pull through all the changes in a short time. It is reasonable to expect that India shall make progress in sprints and will have to deal with various obstacles that come in its way to de-bottleneck the sector. India's potential to transform is huge. Our vaccination programme, our border-roads programme, the

Ujjwala initiative, rural-electrification and others are all testimony to India's capacity to move mountains in a short time. All it needs is greater alignment of its stakeholders which can be done if unforced political errors can be avoided by the government and forced political errors handled with greater equanimity and finesse. An ambitious yet "common minimum programme" between the states and center can help achieve this. In the same way in which the GST Council drove the implementation of such a massive programme.

[1] NATIONAL STEEL POLICY(NSP), 2017, Ministry of Steel, accessed on 21 September 2021
[*] Forces and resources of the European combatants, 1939, Britannica, accessed on 28 September 2021