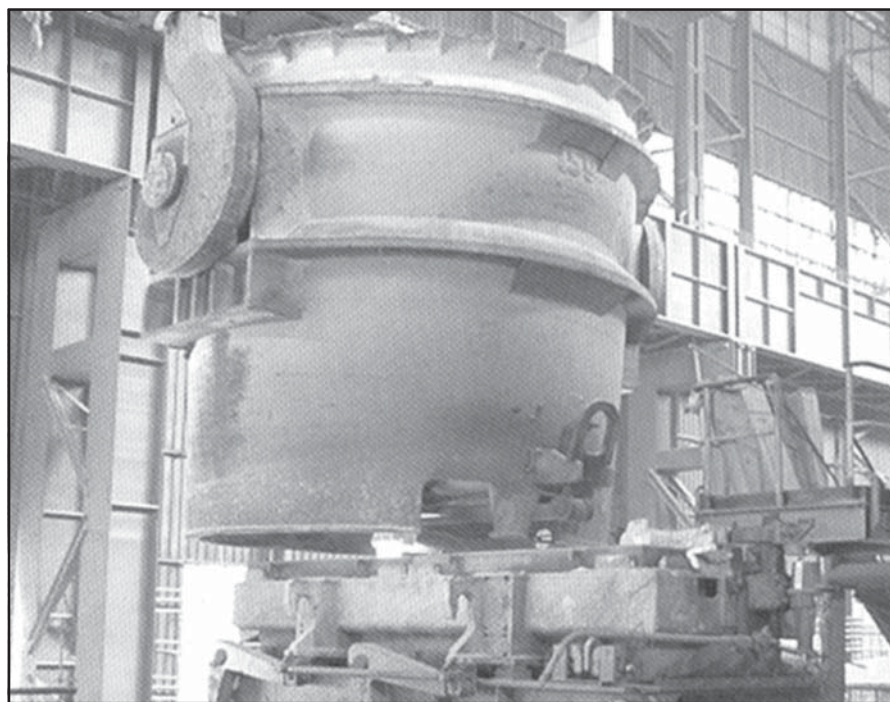


Steel Industry in India Poised for turnaround by fiscal end

Sluggish international demand and rising inventory levels have forced Indian steel producers to cut third quarter production and slash prices for a third consecutive month, but industry players expect all this to change by September. Experts expect conditions to remain difficult, but key economic indicators are showing an encouraging signal for real steel demand prospects, and prices are expected to improve in the short term," said Lakshmi Mittal, chairman and chief executive of the world's largest producer, Netherlands-based Mittal Steel Co. N.V. (MT), at the company's second quarter results announcement.

Upwards momentum

In India, the price of hot rolled coil, the steel industry benchmark, is currently around Rs.25,000 a metric ton, down 30%-40% from three months ago. However, analysts expect prices to go up between Rs.700/ton and Rs.1,000/ton in September as consumers use up existing stocks. Globally, prices are around \$450-



\$480/ton, down from over \$700/ton last September. But this is already \$10-\$30 higher than prices last month, signaling an upturn in the international market, one which analysts say India will follow.

As many countries emerge from their summer slump, prices are expected to pick up more by the fourth

quarter. But first, prices may fall before they climb up again because steel prices in India are still some \$30-\$50 more than international prices, said an analyst at an international brokerage firm. Recently, Steel Authority of India Ltd., Essar Steel and Ispat Industries reduced prices by up to 8%, marking a third cut in as many months.

Globally, steel producers have reduced their output to shield margins amid a supply glut in the market and falling prices. U.S. producer Nucor Corp. (NUE), European producer Arcelor, as well as Japan's Nisshin Steel Co. and South Korea's Posco have all cut third quarter production. Given the steel market is cyclical in nature, industry players are confident prices will go up, now that China's recently-released steel policy is in place to control growth, coupled with demand from Asia's booming infrastructure, housing and construction sectors. With Asia growing, especially Southeast Asia and West Asia, the Indian steel industry is also poised for strong growth.

India to take measures for sustain able growth

India's steel-producing capacity is 35 million tonnes a year, and the industry is expected to grow 7%-10% a year to hit 110 million tonnes in 2020. This target is a part of the long-awaited National Steel Policy, expected to be announced

this month. The policy will facilitate the growth of the steel sector, ensuring it to be sustainable, self-reliant and globally competitive. It is said to include long-term production objectives, industry consolidation and investment guidelines. But the biggest

concern among Indian steel producers now is the lack of availability of iron ore at specific locations, despite the



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country being the world's third largest iron ore exporter, exporting about 70 million tonnes of iron ore each year. India is estimated to have proven iron ore reserves of about 13 billion tonnes. But Sushil Financial Consultants' Head of Research, Tejas

Doshi, thinks there may be even more, as feasibility studies have not been conducted in many parts of the iron ore-rich country. Even at current estimates, these reserves can last more than 20 years if the country uses 300 million tonnes a year. The problem facing the industry is that some Indian states have a policy of granting mining leases only to companies that have made a commitment to set up plants within the state. This has angered many players who feel India is one country and should be treated as one country, with mining leases given to domestic companies as long as their plants are within the country. Priority should be given to existing steel plants with 2 million tonnes or more capacity, followed by existing plants that do not have adequate mines and are going in for expansion purposes, and then to new plants, said the Indian Steel Alliance, an industry association made up of six major producers. The alliance is also championing industry protection, claiming cheap imports from countries such as Ukraine and Russia that are hurting domestic competitiveness.

