Meltdown Affects Indian Steel Projects

- Steelworld Research Team

A weakening demand for metal through the remainder of 2008 could be seen through the deterioration in global macro-economic environment, because of which the steel market has been adversely affected. Also slowdown in consumption in China, the world's largest producer and consumer of the industrial metal, added to the woes. Construction activity in China has turned sluggish and this is likely to hit the steel market, because construction accounts for about half of steel end-use demand. The slowdown in construction activity (housing, infrastructure) is expected to exert negative pressure on steel demand and, in turn, steel prices. In the first half of 2008, prices were driven to unprecedented levels by steel shortage and speculative buying by traders and end-users. The recent weakening of the Chinese demand and a surge in Chinese exports, combined with weaker EU and US orders, has led to a major price correction.

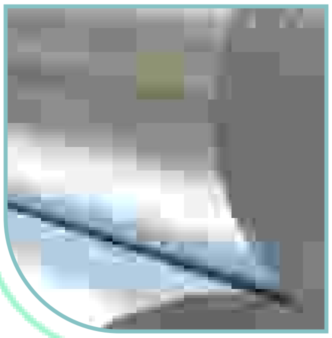
Stainless Steel Market

The stainless steel market is experiencing a slowdown in demand on the local and international front. It has been found that some of the smaller manufacturers are really far stretched with debt, and are taking strain. At that level of the market, one can see the effects of the slowdown. Two key reasons are responsible for the demand decline. The

Yearly Wholesale Price Index (Base Year 1993-94 = 100)

Calendar Year	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Iron & Steel	269.4	246.1	253.5	222.5	168.3	140.8	136.6	136.2	133.9	132.7	128.4	121.9	114.9	104.2
Steel ingots(plain carbon)	180.9	144.7	174.9	164.9	144.3	144.3	142.9	130.1	122.1	121.2	124.7	123.2	117.6	113.8
Steel Wire	171.9	149.6	142.8	132.6	105.4	95.7	92.9	89	89.3	92.9	95.4	92.4	94.6	99.7

Source: MOSPI



first reason is the interest rate uncertainty that has put pressure on consumer spending, in general. Reduced consumer expenditure has affected all industries to some degree. The second reason for the economic slowdown is the international sub prime, 'toxic debt' situation, which started in the US and has been making waves throughout the world's financial markets. These same factors have led to slowdown in residential housing projects this year. Through the housing market, the demand for stainless steel has been indirectly affected, as much of the alloy is used in such projects in the form of items such as counter tops, balustrades, light fixtures and kitchen sinks.

The automotive industry was hit hard in 2008, as record high fuel prices and interest rate hikes forced consumers to opt for cheaper, smaller, more fuel- efficient cars, or to simply refrain from buying new cars at all. This affects the stainless steel market too, as a significant part of the stainless steel market rests in the transport sector, in the form of products such as catalytic converters, flexible couplings, exhaust systems, bull bars, bus chassis, rail car bodies and coal wagons. The downturn, which began around the start of the second quarter of 2008, is simply part of the cycle. This kind of trend is not uncommon in the stainless steel industry as well as in the carbon steel industry; because the materials have such a wide range of applications and their uses span many potentially conflicting markets. Certain sectors in the market show an upturn while others show a downturn, which is not necessarily a bad thing. It's just harder to prepare for it.

India's stainless steel imports dipped by 70 percent to 6,000 tons in December 08, weakening the industry's demand for raising import duty on the alloy. After surging by over 60 percent to 20,000 tons in November, the imports declined by 14,000 tons previous month, as demand weakened after buyers delayed their purchases in anticipation of the prices to cool down further. At present, a ton of cold-rolled stainless steel is costing around Rs 1.18 lakh, whereas in November it was Rs 1.45 lakh a ton. However, now that imports have declined and the trend is likely to continue on account of fiscal measures taken by the government, the Steel Ministry may give a second thought on whether to raise the import duty on the alloy, an official source said. Even as the domestic stainless steel producers want curbs on imports, the end users and importers are opposed to such move, saying it would lead to monopoly of a single producer.

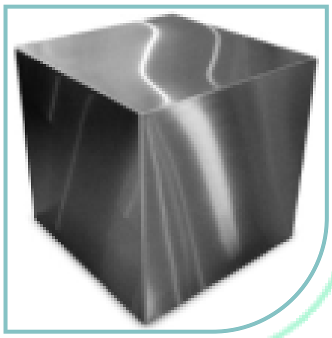
Major Steel Projects affected

Tata Steel's three greenfield projects have witnessed a cost escalation of over 50 percent, or nearly Rs 35,000 crore. The new projects in Jharkhand, Orissa and Chhattisgarh have been delayed 2-3 years due to land acquisition problems, in line with other mega steel projects announced by global giants such as ArcelorMittal and Posco. Tata Steel, the world's sixth largest steel-maker, had proposed to add 23 million ton (mt) capacity through these three projects with a total investment of around Rs 68,000 crore. The Jharkhand and Chhattisgarh projects, which were to be completed by 2012 and 2015, respectively, have been delayed by 36 months while the Orissa project has been delayed by 24 months from the deadline in 2013.With the delays, the total expenditure would escalate to over Rs 1,00,000 crore as the construction cost shot up to $1,000 a ton from $600 a ton when the company had announced the projects. Surging steel prices, equipment and construction costs and land values are the key reasons for the escalation of expenditure. If the projects are delayed further, it will be tough for steel firms to complete announced capacity additions.

The steel projects of ArcelorMittal in Jharkhand and Orissa have been delayed by 2-3 years due to land acquisition delays, which pushed its capital cost by 50 per cent. Steel tycoon LN Mittal-promoted company had estimated to invest about $18 billion in these projects. In the current

situation, the company will have to spend an additional $9 billion for the completion of the projects. South Korean steelmaker Posco's $11.6-billion Orissa project is facing regulatory hurdles along with the issues of land acquisition. Indian companies including JSW Steel, Jindal Steel and Power will also have to stretch their investments by about 50 percent to complete their proposed projects.

Hit by sluggish demand and declining prices, Punjab's steel



makers have slashed production by 50 percent to minimise their mounting losses. They have reduced production capacity by 50 percent as the demand for steel and prices have dipped sharply. Punjab's steel industry, having a 20 percent share in the country's secondary steel production, has a capacity of producing 8,000 metric ton per day. The steel industry received major jolt when the light engineering industry including bicycle, hand tools, forging, machine tools cut down their orders considerably in view of reduction in their export orders due to lack of demand in global market. At present, the industry is just using its capacity to cater to the construction sector. Since the prices of steel have come down to Rs 31,000 per MT from Rs 46,000 per MT, the construction sector is still placing orders for steel. Falling steel ingot price has also been another major factor forcing induction furnaces to cut down their production capacities. Sensing that steel prices would not improve in the near future, the induction furnaces and scrap importers have already canceled their steel scrap orders. Because of the depreciation in rupee, the actual price to be paid by importers will go up, which will further add to their burden.

State-run Steel Authority of India (SAIL) is likely to cut down production as demand for the metal in the global market has considerably reduced. Rourkela Steel Plant (RSP), a giant unit and the first steel plant in the country, has been forced to reduce its normal production. Its sale position of saleable steel has started declining from October 2008, thus piling up its stock position. RSP had sold about nine lakh tons of salebale steel (average 1.40 lakh tons per month) during first-half of the current financial year, against its annual target of about 17 lakh

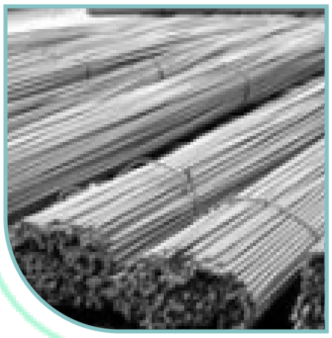
tons and gained net profit of Rs 800 crore till September 2008.But due to declining demand of steel in the global market, RSP could manage to sell only about 90,000 tons of saleable steel during October 2008. For November 2008, the order received by the plant was only 40,000 tons against its average of 1.40 lakh tons.

While JSW had no intention to cut production in the wake of price cut and slowing demand, the company had postponed commissioning of its 3 million ton blast furnace at Bellary till December. The domestic demand continues to be strong, though there is a possibility of being saddled with a higher inventory for a few months adding that there was no cause of worry on margins as input cost too had come down correspondingly. On exports, steel majors had represented to the Government the need to scrap export duty and hoped that the Government would respond the way the steel companies supported it in holding prices during difficult times.

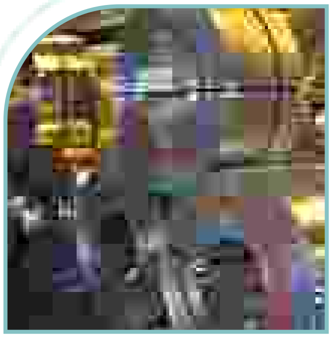
Past Asia's strengths

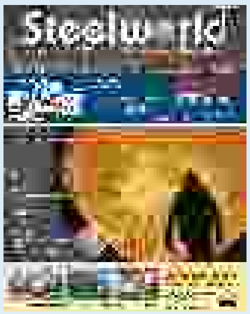
Despite being the metal industry's youngest alloy in reckoning, stainless steel, or 'speciality steel', has charted a remarkable success story, clocking a record growth over the past quarter century. Steel without stainless steel recorded only 1.38 percent growth and so did other metals — aluminium, copper, zinc and lead within the range of 2.99 percent to 1.26 percent. Though, while this phenomenal growth is clearly reflected in the numbers, an equally remarkable increase of popularity and versatility in the use of stainless steel has been evident in the recent past. Increasing demand for stainless steel has been witnessed from users across construction, transport and several industrial sectors, and steel use is set to grow by leaps and bounds in India and China. While stainless steel comprises only 3 percent of the volume in the steel sector which contributes 15 percent of the revenue, the growth graph of this green metal has been almost historic. This popularity gain has been duly reflected in the recent past, where world-wide stainless steel consumption has witnessed a record increase. The drivers for such impressive growth result from stainless steel's sterling characteristics including corrosion and oxidation resistance (especially in coastal and weathered regions), high strength to weight ratio, excellent press formability, weldability and low temperature toughness.

A gradual yet steady leadership flow has been evident towards the giant Asian economies as they have risen to recognise the contribution of stainless steel in their respective market peripheries. While the numbers substantiate the claim that it stakes, increasing demand for



stainless steel has been witnessed from users across the construction, transport and several industrial sectors. However, the rising cost of key inputs, such as chromium and nickel, over the last few quarters have triggered substitution efforts world-wide, with low nickel content grades (Cr-Mn 200 series) and ferritic grades gaining momentum. To offset this situation further, there has been a significant change in the global stainless steel product mix as well. China, the largest stainless steel market in Asia, has responded to the volatile input costs, with the low nickel, Cr-Mn 200 series and ferritic grades of stainless steel; in Q1 of 2007, China's stainless steel production reached 1.63 mt against 1 mt in Q1 of 2006. China's stainless steel consumption increased by 9.7 percent to 1.46 mt. The writing is clearly on the wall: China has successfully emerged as the leading Asian economy to spur stainless steel consumption and is steadily guiding the global stainless steel leadership towards potential Asian markets. China has surged ahead in stainless steel per capita consumption, India, despite its huge potential and opportunities, has a stainless steel consumption of 1.2 mt, and is placed seventh globally. India's per capita consumption of stainless steel, of 1.1 kg, is far lower than China's (1.6 kg in 2000 to 5.3 kg in 2006) and other developed countries, that are in range of 15-20 kg. This highlights the potential for high growth, in view of higher expected growth in GDP, higher industrial production, existing low per capita consumption, availability of key natural resources, such as manganese and chrome ore and competitive manpower costs in our country. Though Indian consumption grew over last decade at 13-14 per cent, stainless steel demand is expected to grow by 12 per cent annually, opening immense avenues for multiple applications, especially in railways; airports; public utility infrastructure; municipal /urban local bodies; Commonwealth Games 2010; malls; hospitals; tourism and hotels and construction sector.





Steelworld

Monthly Journal devoted to Steel & Allied Industry

Yes *I would like to subscribe to the journal.*

Name : ____________________

Designation : ____________ Edu.Qual. ____________

Company : ____________________

Address : ____________________

____

City : ________ Pin : ________ State : ________

Tel : ____________ Fax : ____________

Email : ____________________

Website : ____________________

Please find enclosed Draft No ____________ Dated ____________

Payable at Mumbai in favour of **'Chandekar Business Media Pvt. Ltd.'**

SUBSCRIPTION FORM

: RATES :

Period	Indian	Non-Indian
1 Year (12 Issues)	3000/-	US$ 225
2 Years (24 Issues)	5750/-	US$ 400
3 Years (36 Issues)	8500/-	US$ 575

2 - FREE Colour Classified ADS (5.5 cm X 4 cm.) per year for subscribers only (Please send the matter along with the Subscription form)

Chandekar Business Media Pvt. Ltd.

(An ISO 9001 : 2000 Certified Company)

1, Alpha, M. G. Road, Vile Parle (E), Mumbai - 400 057. INDIA **Tel. :** 91-22-26192376 / 26171575 / 2617 1866 **Fax :** 91-22-26162817

E-mail : circulation@steelworld.com **Web :** www.steelworld.com

Yearly Wholesale Price Index (Base Year 1993-94 = 100)														
Calendar Year	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Iron & Steel	269.4	246.1	253.5	222.5	168.3	140.8	136.6	136.2	133.9	132.7	128.4	121.9	114.9	104.2
Steel ingots(plain carbon)	180.9	144.7	174.9	164.9	144.3	144.3	142.9	130.1	122.1	121.2	124.7	123.2	117.6	113.8
Steel Wire	171.9	149.6	142.8	132.6	105.4	95.7	92.9	89	89.3	92.9	95.4	92.4	94.6	99.7