Random view of Steel Industry

- Namita Naik

The steel industry in industrialized countries has been stagnating. But India is one of the few countries where the steel industry is poised for rapid growth. While plant closures and privatization are rare in India, the private sector is considered to be the engine of growth in the steel industry in the future and technological changes and modernization are taking place in both the public and the private sector integrated steel plants in India.

A major aspect of industrial restructuring in Indian steel is that it is taking place in a humane, non-surgical manner. The Indian steel industry has come a long way since its humble beginnings. The takeover of the British steel giant Corus steel by Tata Steel and the acquisition of Arcelor by Mittal Steel herald a new beginning for the Indian steel industry. These events signify the fact that the Indian steel industry has acquired a global identity and is today extremely competitive. Some of the prominent steel producers are Posco, Tata Steel, Essar, Ispat, SAIL and RINL.

Indian Scenario

Recession in the Indian steel industry has spread its shadow not only over the entire industry, but the economy as a whole. Whether the recession period is over or about to be over within a short while is a million dollar question at present. At the time when the steel and the other related sectors across the world, along with India, are groping in the darkness of economic slowdown, the recent reports of 40 percent increase in imports of finished steel in India despite the imposition of 5 percent additional duty on certain steel products, according to the experts, was a clear indication of steel demand getting stronger, followed by a rejuvenation of infrastructure and construction sector after a prolonged period of serious setbacks.

It has to be said that the global recession has affected the Indian steel industry especially stainless steel, but the steel industry is trying to offset the negative effect of the recession by focusing on transportation and construction projects, which are usually funded by the government. India is the only country globally to record a positive overall growth in crude steel production at 1.01 percent for the period January –March 2009.

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Table 1: Projected compounded annual growth rates for production, imports, exports and consumption of steel in India (2003-2004, 2004-2005 and 2019-2020)

(Million Tons)				
Year	Production	Imports	Exports	Consumption
2004-05	38	2	4	36
2003-04	35	2	6	31
2019-20	110	6	26	90

The path to economic development of a developing country is very much linked to the development of its infrastructure. It is estimated that India's steel consumption will grow at nearly 16 percent annually till 2012.

The National Steel Policy has forecasted the demand for steel would reach 110 million tons by 2019-2020. Any developing nation needs to attract capital to ensure economic growth and to attract such capital; the basic infrastructure framework has to strong enough. Construction builds this framework. Amidst the ugly recession, where all the major domestic steel players have mellowed down on the implementation of their projects as well as gone for sizeable production cuts, Bhushan Steel, a leading cold rolled steel producer in the country, is on cloud nine with the reports of SEBI giving clearance to the company's open offer to acquire additional stakes of Orissa Sponge and it is all geared up to make its mark through its chains of investment throughout the length and breadth of the nation, latest being the setting up of a 1.2 mt steel plant in Orissa.

India's steel demand is expected to rise 8 percent-10 percent in the current fiscal year of 2009 amid a series infrastructure projects supported by a government stimulus package and work ahead of the 2010 Commonwealth Games, but the domestic steel industry may not be able to ramp up production quick enough after delaying or shelving several expansion projects during the market melt-down. This could lead to a rise in imports in the coming months, especially as importers take advantage of softer international prices after Indian producers raised prices in recent months. Imported hot-rolled coils currently cost about 27,200 rupees per ton ($561.25) in the western Indian city of Mumbai while locally produced HR coils are priced around 31,000 rupees per ton at

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Table 2: Month-wise Production of Iron Ore in India

('000 Tons)												
Year	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
1997-98	5883	5639	5128	4885	4994	5333	6022	6381	7078	7367	6958	7050
1998-99	6696	6581	5145	4868	5000	4710	5574	5597	6115	6067	6303	7432
1999-00	6174	6022	4627	5067	5091	5127	5651	6226	6967	7018	7068	7525
2000-01	6655	6557	5334	5328	5181	5314	6386	7069	6914	7823	6857	8218
2001-02	7268	7238	5271	5118	5918	6342	7012	7469	8295	8166	7694	8614
2002-03	8495	7900	6194	6512	6035	6411	7721	8328	9571	10043	9394	10032
2003-04	8495	7900	6194	6512	5861	6296	6524	10866	11599	12768	12986	13538
2004-05	12242	11035	9194	9825	8883	9673	11303	12277	13850	13844	13502	16311
2005-06	13613	14042	11685	10545	10279	10435	11274	12421	15056	15178	14002	16743
2006-07	14572	14741	12625	11149	10767	11655	13342	14882	17526	18111	18057	19528

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According to provisional estimates, imports have already risen by 4 percent on year between April and August 2009, to 2.75 million metric tons. The shipments were mainly from Russia, Ukraine and France, according to the Joint Plant Committee, a data dissemination unit under the federal steel ministry. Hot-rolled coils are main input used in making cold-rolled, value-added steel. India's steel output rose just 2.7 percent on year to 23.46 million tons in the first five months of the current fiscal year from April while demand rose by 6.6 percent to 22.14 million tons.

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Table 3: Monthly Wholesale Price Index of Iron and Steel in India

(April 1990 to May 2009)												
Year Base Year : 1993-94 = 100												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1990				195	196	196	196.6	196.9	199.5	206.4	206.4	206.5
1991	206.6	206.7	206.7	206.7	206.7	207.4	209.5	214	214.7	214.7	214.7	215
1992	215.3	216.1	216.5	216.4	218.7	235	235	235	235	235	235	235
1993									254.6	255.5	255.9	258.7
1994	261.4	261.4	261.6	102.6	103	102.8	103.7	103.8	103.8	104.1	104.7	109.4
1995	110.5	110.5	112.6	114.7	115.3	116.1	117	116.4	116.7	116.8	116.1	116.2
1996	117.8	117.9	118.2	118.7	118.6	118.7	123.9	125.6	125.9	126	126	125.7
1997	126.6	126.8	126.8	127.1	127.7	128.1	128.2	128.1	127.7	129.1	131.4	132.7
1998	132.6	132.6	132.6	132.6	132.7	132.5	132.8	132.8	132.7	132.7	132.7	132.6
1999	132.2	133.3	133.8	133.8	133.9	134	134.1	134.2	134.2	134.4	134.7	134.7
2000	134.8	135.6	135.6	135.8	135.8	135.8	135.7	135.7	137.6	137.5	137.3	137.6
2001	137.5	137.5	137.5	137	135.7	135.8	135.9	135.9	135.9	136	136.7	137.5
2002	137.5	137.5	137.5	137.6	137.6	137.6	138.7	144.5	144.5	144.5	144.6	146.9
2003	146.8	149.1	150.2	150.2	163.4	163.4	166.1	178.3	186.4	187.9	188.9	188.9
2004	198.6	200.3	201.1	201.8	201.9	235.1	240.7	241.6	237.2	237.3	237.5	237.5
2005	239.8	239.4	244.8	257.8	258.3	257.6	254.7	257.3	259.3	258.5	257.5	256.6
2006	231.4	225.6	226.4	243.7	243.8	243.6	251.5	253.8	256	259.2	259.4	259.4
2007	260	260.4	261.9	266.9	267.9	268.1	268.8	267.5	276.7	277.6	278.4	279.2
2008	279.9	281.7	337.7	359	353.3	357.6	326.6	362.8	360.4	355.1	329.2	321.3
2009	303.1	286.6	288.4	285.8	286.3							

*: Projected Figures

Source: compiled from Indiastat.com

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deferred their investment plans, are starting to invest again in capacity expansion. Higher car sales during the festive months of October are also expected to boost steel demand. In August, car sales rose 26 percent in Asia's third-biggest automobile market. Another source of strong demand could be the power sector as the country plans to add 78.7 gigawatt of generation capacity by March 2012, at an estimated investment of 10.6 trillion rupees to tackle its peak-hour power shortages. Enquiries for steel from power companies have increased sharply in the last few months as the power plants consume a lot of steel for construction, machinery and transmission.

Chinese Scenario

Affected by several factors, the total demand for steel products was cut down in the world. From 2008, reduction in domestic demands and surplus of the yield capacity, the exports of Chinese steel products were impeded. In 2008, Chinese enterprises dropped in production and price of steel products sharply. By the end of 2008, more than half of the enterprises showed a deficit. Chinese government issued four-trillion-Yuan investment plans in large-scaled infrastructure constructions. With the influence of the plan, it is predicted that the annual demands for iron & steel products are above 30 million tons.

The demands for iron & steel products are increased as well as the profitability. There was still opportunity in the field of mergers and acquisition in Chinese iron& steel industry. On the one hand, the asset value of Chinese iron & steel industry was in the historical lowest level, which provided good external condition for the asset mergers and acquisition. On the other hand, Chinese government put more money on the mergers and acquisitions among iron & steel enterprises, including capital supports.

In order to cope with international financial crisis, from January to February of 2009, Chinese government issued ten adjustment and revitalization plans of major industries, including automobile industry, iron & steel industry, shipbuilding industry, textile industry, equipment manufacture, electronics and information industry, light and chemical industry and non-ferrous metal industry etc.

The ten adjustment and revitalization plans of major industries not only promoted the development of each industry, but also promoted the development whole national economies. In January, 2009, Chinese government issued adjustment and revitalization plan of iron & steel industry, including the replacement of lagging yield capacity, structural adjustment of steel types, the expansion of domestic demands and the duty adjustment so as to increase the exports of iron & steel products and the encouragement of mergers and acquisitions among enterprises etc, which clearly showed the determination Chinese government to support iron& steel industry.

China's steelmakers are buying more iron ore, their main raw material, as the Government implements a $586-billion stimulus spending. The

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economy is forecast to expand 8.2 percent this year, compared with a March estimate of 7 percent, easing concern that the nation may slow raw-material imports. Demand has gathered momentum. China may buy 20 per cent more than forecast of the material next year. China may import 637 million tons of ore in calendar 2010, compared with its June prediction of 529 million tons. Global steel consumption may be 1.3 billion tons next year, up 6.5 percent from this year estimated 1.2 billion tons.

Steel prices in China, the world's biggest producer and consumer, are likely to rebound at the end of the year due to falling supplies. Chinese steel mills are being forced to cut back output because the fall in product prices has not been matched by a decrease in costs. Many steel mills have been losing money. Domestic hot-rolled prices, including tax, stand at around $512.7 per ton on the physical market, which were lower than the production costs of most Chinese steel mills. So far, the production cuts have been limited to smaller enterprises.

Most of the big steel mills have not cut production because they want to maintain a normal production rate to absorb their raw material inventories. Around 30 small and medium scale blast furnaces had been closed down in Hebei province following a 10 percent drop in physical steel prices since August. Despite a collapse in export demand, China's steel mills have maintained high levels of output over 2009, prompting government and industry officials to warn of severe overcapacity. The problem of Chinese steel industry is overcapacity which is showing up with iron ore price rising despite down trend in Chinese domestic steel market. Chinese steel price has declined for seven weeks since August and the downward trend is becoming slow now. Specifically, construction steel market is stable or has a slight increase. Material market shows an entire down path. Medium plate price continue to reduce, and the range of decline is over CNY 100 per ton in leading markets. Hot rolled coil price is also down by CNY 100 per ton. Cold rolled coil price falls by CNY 50 per ton to CNY 130 per ton, except in southwest market.

Although steel price has declined from the high level, the production supply is still huge. The rate of operation is around 92 percent. Thus, the quick release of capacity increases the inventories. Up to the end of October, the total volume is 10.94 million tons, added 1.5 million tons than July. Due to the high pressure of inventories, steel factories begin to drop the price. The main reason that iron ore price increasing is to guarantee the supply of raw material in National Holidays. In addition, the domestic iron ore supply reduces to ensure the safety. Because of the imbalance of supply and demand, the price rises. However, the new-round iron ore negotiation will restart in this period. According to some projections, the long-term supply price will increase by 10 percent to 20 percent. If the spot iron ore price keeps up, it will be against the party in request.