

Steel Demand to Dampen on High Prices

- Steelworld research Team

Steel is the root of all infrastructure development and therefore, is directly linked with the country's economy and inflation – the two major concerns for the government and “common man.” Whenever the steel prices have revised upwards, the government and the private sector had coughed up extra money from their pockets thereby the economic health of the country has taken a beating and it has given a reason for inflation to rise. This time too, the situation is unlikely to be different. The overheating steel prices are likely to hit margins of companies engaged in infrastructure development. Only difference this time, experts believe, that the steel price high will lead to a slowdown in consumption and therefore, will begin the economic impact, a major concern, the government is willing to avoid.

Upward March

Turns Costlier, Rs/tonne

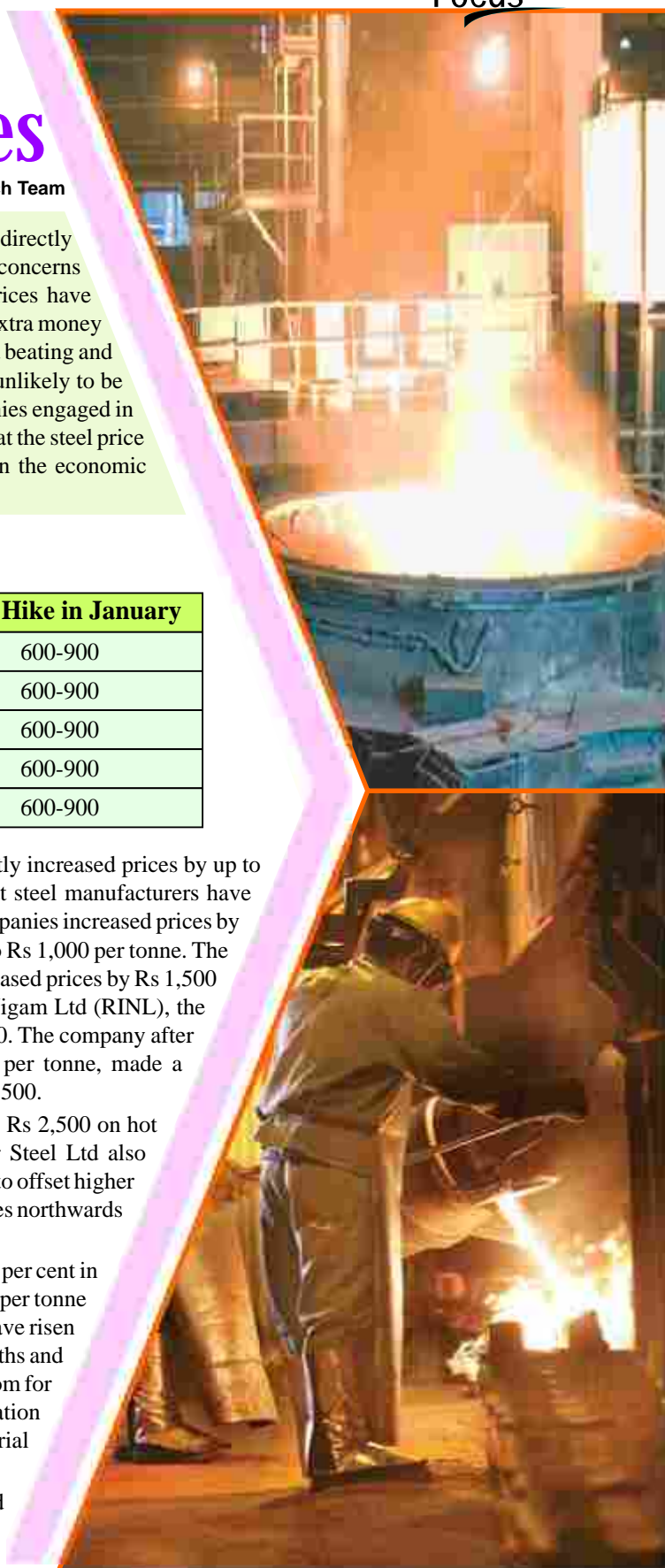
Company	Current Price Hike	Rollback	Price Hike in January
SAIL	1500-2500	500-1000	600-900
RINL	1000-1500	500-1000	600-900
Tata Steel	2000-2500	500-1000	600-900
Essar Steel	2000-2500	500-1000	600-900
Ispat Industries	2000	500-1000	600-900

Despite government's unwillingness, major domestic steel producers firstly increased prices by up to Rs 2,500 per tonne across various products. This is the second time that steel manufacturers have revisited prices in as many months. In January, while the public sector companies increased prices by Rs 500 to Rs 1,500 per tonne, private companies hiked prices by Rs 500 to Rs 1,000 per tonne. The largest domestic steel manufacturer, Steel Authority of India Ltd, has increased prices by Rs 1,500 to Rs 2,500 per tonne across product categories, while Rashtriya Ispat Nigam Ltd (RINL), the holding company of Vizag Steel Plant, hiked them by Rs 1,000 to Rs 1,500. The company after increasing prices in the beginning of January by Rs 800 to Rs 1,500 per tonne, made a correction on January 28, when they were further hiked by Rs 3,000 to Rs 3,500.

Tata steel raised the prices in line with market conditions by Rs 2,000 to Rs 2,500 on hot rolled, cold rolled and galvanized steel only in the spot market. Essar Steel Ltd also orchestrated a rise by 7-8 per cent, or Rs 2,000 to Rs 2,500 a tonne, mainly to offset higher input cost. Ispat Industries, it is learnt, has also followed suit and taken prices northwards by Rs 2,000 per tonne.

According to market estimates, prices of coking coal increased by 20 to 25 per cent in the last couple of months and the companies are paying close to \$ 60 - \$ 70 per tonne as ocean freight for a Panamax vessel. Iron ore prices, on the other hand, have risen by over 30 per cent in the international spot market during the last two months and are currently around \$ 200 per tonne. They, however, denied having any room for price rollback. The public sector National Mineral Development Corporation (NMDC) has already hinted that the price of iron ore, the largest raw material for steelmaking, would be raised by 50 per cent from April 2008.

The industry has also demanded that the railway freight has to be reduced and the congestion charges by railways for transportation of iron ore to ports must be removed. According to estimates, the port congestion



charges have gone up from 21 per cent to 60 per cent in December last year. Also the inland freight charges have gone up by 65 per cent in the last one year from Rs 650 per tonne to Rs 1,250 per tonne. This apart, the iron ore prices have touched \$150 in December from \$59 in February last year, and coal prices have gone up by more than 200 per cent in the last eight months.

Government Pressure

The Union Minister for Steel, Chemicals and Fertilisers, Ram Vilas Paswan, and the SAIL Chairman, S.K. Roongta, at the Golden Jubilee celebrations of SAIL in the capital. The government termed the recent price hike by steel companies as unreasonable and said that it would review the situation. The steel minister held a meeting with the major steel producers in according with the guidelines by the Price Monitoring Committee of the government and guided them to rollback prices arguing that the price hike would affect the common man. "The Ministry does not want the industries to run losses but at the same time we do not want them to hike prices just by saying that the input prices have gone up. So I would like to meet the company representatives and then see if the quantum of the recent price hike is justifiable or not," Paswan said. The huge demand for Indian steel producers in other markets like China, Brazil, Russia and West Asia and also an increase in the international price of the commodity has also held the steel prices firm. Justifying the increase in prices, Mr S.K. Roongta, Chairman SAIL, said that the company was facing cost pressure.

Partial Rollback

At the behest of the steel ministry, steel producers offered a price cut in the range of Rs 500-1,000 a tonne. Industry leaders declared the price cut following their meeting with Steel Minister Ram Vilas Paswan. The price of TMT bars and rounds have been cut by Rs 1,000 a tonne, while hot rolled coils have been made cheaper by Rs 500 a tonne. Most steel producers had increased prices by an average Rs 2,500 a tonne with effect from February. In January, prices were hiked by an average Rs 500 a tonne. In turn, steel producers also put forward their demands for lower excise duty from 16 per cent to 8 per cent and railway freight on steel.

Growth of Infrastructure Sector Dips

Heading South, Growth in Percentage

Sector	April - Dec 2007-08	April - Dec 2006-07
Overall	5.7	8.9
Crude Oil	0.3	6
Petroleum Refinery Products	7.5	13.2
Coal	4.9	4.6
Electricity	6.6	7.5
Cement	7.2	10.3
Finished Steel	5.6	11.4

Source : Government

With the steel prices are leaping up frequently, the country's industrial production slowing down in December last year, the

growth of the six key infrastructure sectors in December 2007 dipped to 4 per cent compared to nine per cent achieved a year ago. The April-December performance of infrastructure industries – crude oil, petroleum refinery products, coal, electricity, cement and steel – was also down at 5.7 per cent as against 8.9 per cent in the same period last year.

According to data released by the Government, crude oil was the worst performer with a negative growth of 1.5 per cent in December as against a positive growth of 10.7 per cent in December 2006. Petroleum refinery products registered a growth of just two per cent in December 2007 as compared with 10.8 per cent in the same period in 2006. Finished steel grew by 5.13 per cent as against 10.2 per cent, while expansion in the cement sector dropped to 3.9 per cent from eight per cent. Electricity generation on the other hand went up by only 3.8 per cent as compared to 9.1 per cent. Coal production, on the other hand, registered a growth of 8.4 per cent as against a growth rate of 2.9 per cent in December 2006, the data said.

Inflation Up

Although, the weightage of steel on the wholesale price index is not encouraging, yet, the annual Wholesale Price Index-based inflation rose 3.79 per cent for the week ended January 5, up from the previous week's annual rise of 3.50 per cent. The Wholesale Price Index of all commodities was up at 216.6 points against 216 points.

Conclusion

At the current price of Rs 37,500 per tonne (HRC), the demand is expected to slump as the current price is unsustainable. As per an estimate, steel constitutes more than 40 per cent cost of infrastructure. Thus, any price hike in steel will have a direct bearing on the cost of the presently booming housing sector. Although, the ongoing projects are unlikely to halt development, the upcoming projects may be delayed. Surprisingly, China, after Olympic Games later this year, will turn out to be a huge surplus and the world market may see a dumping from the world's largest steel producer.

India's consumption, although expected to go up for the preparation of 2010 Commonwealth Games. Last year, India imported about 2.9 million tonnes of special steel thus, recording a growth rate of 20-25 per cent. In turn, the country exported 3.6 million tonnes of special steel to neighbours and Middle East countries.

Tonnes	India's Performance During		
	2006-07	2005-06	Change (%)
Finished Non-alloy Steel	20196	44390	13.2
Production for Sale	4436	3850	15.2
Imports	4893	4478	9.3
Exports	44328	39185	13.1

Source : Joint Plant Committee