

Slowdown gives an opportunity to SAIL to reorient production - Sushim Banerjee



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Executive Director
(Commercial), SAIL.

At a time when all major steel producers are cutting output targets, laying off employees and holding projects, Steel Authority of India Limited's (SAIL) expansion and modernisation program is well on track.

The state-owned company has managed to post an adequate growth in the last quarters whereas others have been struggling to survive.

Sushim Banerjee is presently working as Executive Director (Commercial), SAIL. The job requires working out strategies and policies of the Marketing division of the company. He worked as Executive Director (Human Resource Development) of Management Training Institute, SAIL at Ranchi. He also Presented case studies at 9th Corporate University Week at Orlando, Florida, USA during Nov'07 and was awarded the First runner up Prize in the competition contested by 25 Corporate Universities. Sushim Banerjee has published reports and presented papers on steel demand, linkages of economic growth with various industrial segments, globalisation, international trade, Anti-Dumping, WTO and issues relating to steel in international seminars.

Speaking in an exclusive interview with Steelworld, S. Banerjee spoke about the recession, future on Indian steel industry and new emerging areas for growth.

Following is an in-depth conversation with Sushim Banerjee, Executive Director (Commercial), SAIL.

Q) How do you see the current global recession in Asian and particularly in Indian Steel industry?

S. Banerjee : The growth and development of steel industry is closely linked with economic growth of the country, especially with the growth of its industrial sector. As financial meltdown and the consequent slowdown in economic activities engulfed USA, EU and other countries in quick succession and

degenerated into a liquidity crisis of unprecedented nature, the major consuming segments like automobile, shipbuilding, consumer durables and construction, witnessed a massive drop in demand. The demand slowdown got reflected into a much lower demand for steel.

Asian region, however, registered fall in steel production by a much lesser extent as compared to the developed countries. In January '09 while the



world production of crude steel at 85.8 mts is 24 percent lower than the level of Jan'08, Asia clocked production level of 57.3 mts, 7.8 percent lower than Jan'08. In Jan'09, India's steel production at 4.6 mts was 4.8 percent lower than the level of previous year.

Indian steel industry was also adversely affected by the global slowdown. As per official estimates, the production of finished steel in the country went up by 0.8 percent in April-Jan'09 period over the corresponding period of last year. But the real consumption of finished steel went down by 3 percent during the period. In February'09 there is a marginal improvement in the market sentiment. This was primarily due to the de-stocking process taking place in the past few months, inventory build up to take advantage of the falling prices by various end-using segments and increased demand from project construction, machinery and equipments sectors, automobile and auto components etc. The slow growth in manufacturing sector (0.8 percent) has pulled down the growth of total industry to (-) 0.5 percent in Jan'09. The silver lining is a respectable growth (15.4 percent) achieved by capital goods sector during Jan'09. However, it is too early to conclude that Indian steel industry has recovered fully from the slowdown in demand.

Q) SAIL has shown a strong performance in the recessionary market. What is the reason behind it?

S. Banerjee : SAIL has a countrywide network of warehouses which can store and send steel to the buyers' premises within a desired time

schedule. For bulk requirements, however, direct supply from the plants is always economical. There is, however, always a cost of inventory holding at warehouses to cater to small and recurring demand by a host of small buyers. The current slowdown in industrial growth has given an opportunity to SAIL to reorient production to match market demand.

Q) Rural India is said to have huge untapped steel consumption potential. How is SAIL planning to tap the same?

S. Banerjee : Rural India holds an unlimited potential for steel demand. With changes in perception of quality of life indices like health, education and housing, the awareness for steel use in infrastructure building in rural areas is fast increasing. The sheer lack of availability of steel was a major problem constraining the growth of steel consumption. Realizing this need, SAIL in the past three and half years has appointed dealers of nearly 2500 in numbers in every district of the country. These dealers obtain their supplies from the nearest warehouse of SAIL (with free transportation from warehouse to their premises) and cater to the local demand of reinforcement bars and galvanised corrugated sheets required for housing, small fabrication, culverts, community buildings etc.

Q) How do you see domestic demand for steel and is it showing any sign of growth?

S. Banerjee : It is perceived that during 2008-09 the finished steel consumption in the country may be equal to or marginally lower than 49.1





ments achieved in the previous year. Against the backdrop of fall in steel consumption ranging from 5 to 20 percent in other major steel producing countries, Indian steel is relatively less affected. The export orientation of Indian steel is likely to be around 10-15 percent of the production and the domestic market would continue to be the major driver of steel demand in the coming years. The current scenario gives us hope that the increasing capital expenditure on Infrastructure and easing of liquidity in the market would have a multiplier impact on other processing industries and would have a positive impact on market sentiments in the coming months.

During 2009-10 the consumption of steel is likely to grow by 5-7 percent over the level of 2008-09. The projection needs to be reviewed every quarter as the market dynamics are changing at a pace never seen earlier.

For Indian steel producers, the coming months would put to test their inherent strength and efficacy of the strategic thrusts. In all likelihood the margins would continue to be under pressure and profits would be critically dependent on the cost of production and selling cost. As global prices are yet to show any rising trend and may be under pressure in the short term, the flow of imports particularly in HR Coils and Plates would have to be monitored closely. Cheap imports of HR Coils, Plates and Billets from CIS and China may distort the domestic market in Q1-Q2 of the next fiscal.

Q) Steel prices and demand are falling in the international markets, what would be your sales and marketing

strategies to achieve your growth target?

S. Banerjee : The recent slowdown in demand has highlighted the role of a number of areas where maximum thrusts in terms of production and marketing strategies are needed.

- a) Cost reduction
- b) Production of value added and customized products to create niche markets
- c) Avoid inventory build-up and make production strictly market driven.
- d) Technological up gradation of the mills in order to capture the demand after slowdown is over.
- e) Continuous improvement in all operating parameters so as to reduce energy consumption and improve productivity.
- f) Effective Supply Chain Management to achieve customer orientation.
- g) Raw Material Security and appropriate linkages for smooth supply of major inputs like coking coal and iron ore unhindered by market fluctuations. This is an area where appropriate joint-ventures can be thought of.

SAIL is fully geared up to continue with its modernization and expansion plan of 5 integrated steel plants and special steel plant at salem. SAIL is firmly of the view that current slowdown provides an excellent opportunity to augment fresh capacity in the most cost effective manner which would enable the company to take full advantage of the market when demand is restored.