



Steel prices fall on concern over global demand

- Namita Naik

Steel prices, domestic as well as international, have fallen by about 10-15 percent during May 2010, due to concerns over global demand, China's calibrated economic slowdown and monetary tightening, euro zone crisis and mounting pressure on raw material front following the switching over to quarterly pricing mechanism from annual price system.

Effectively, Indian steel producers have adopted different pricing positions. Flat product quotas have stabilised, whereas long product offers have fallen in some regions by Rs 1,500/2,000 per ton. Re-rollers have passed on the benefits of the decline in input costs, particularly the reductions in semi-finished steel products. Discounting and rebates have been used to encourage buying activity. Pressure is growing within India for a review on the taxes and quotas currently being levied on exports of iron ore.

Backed by a strong demand from automobile, consumer durable and infrastructure sectors, India's steel consumption rose 12 percent; the fastest in at least one year as per the provisional data of the Steel Ministry. But domestic steel production did not keep pace with demand and rose just 1.5 percent to 5.1 million tons (MT) as compared to consumption of 5.4 million tons. The excess demand was met

through imports from countries like China and Japan. Steel production in the world's fifth-largest steel producing nation had risen 4.2 percent to 60 MT for the year. In the next two years, India will double its steel production even if the big-ticket Posco and ArcelorMittal projects do not take off, Steel Minister, Virbhadra Singh said.

"At present, the steel production is 59.9 MT. By 2011-12, it should increase to at least 120 MT," Singh told a news agency in an interview. He said that besides several major producers like Jindal Steel, JSW, Essar Steel, Bhushan Steel and Tata Steel, many secondary steel producers are also implementing capacity expansion projects. The Minister said that SAIL and RINL are also enhancing their existing plants at Bokaro, Bhilai, Durgapur and Visakhapatnam at an investment of Rs 80,000 crore

The outlook for steel in the year 2011 is bright after having seen demand shrinkage of 6.7 percent. According to World Steel Association (WSA), the global steel use should improve 10.7 percent to 1.241 billion ton. Next year, says WSA, the world steel demand will rise 5.3 percent to a historic high of 1.306 billion ton. However, such demand guidance has to have some underlying caveats like unforeseen dip in performance in steel user industries. Auto industry in the West is not living

up to its early promise. New house starts in the US are still not inspiring confidence. These are some major steel consumption points.

The eurozone economic crisis is also expected to dent the demand for steel. The world must stay alert to the risk of relapsing into economic crisis as Europe's debt woes drag on. The debt crisis in some European countries may impede Europe's economic recovery and bring change to European markets. The global economy is recovering from the crunching financial crisis but remains fragile and faces various risks that require international co-operation. On the back of this latest eurozone crisis, the prophets of hard times are saying the world steel industry will start faring poorly in the second half of the year. But SAIL Chairman Sushil Roongta believes that the developed economies of the West who were caught unawares by the wrenching financial meltdown are now moving into swift action at the slightest hint of a crisis. Once bitten twice shy, Roongta is not saying that the world at this point is worry free about the brewing storm in the financial markets, particularly in eurozone.

"At the same time, I don't think the world is about to be overtaken by panic or once again living in uncertain times," he maintains. He feels the crisis will be averted at any cost. Roongta has based

his optimism on the quickness with which the European bloc put together a euro 500 million (US\$ 625 million) stabilisation fund to spare Europe the trauma of another financial breakdown. IMF will chip in with up to Euro 250 million to reinforce the fund to defuse the sovereign debt crisis that engulfed Greece and at the same time ensure that the virus does not spread to other vulnerable European countries.

Earlier the CEO of Tata Steel Europe Kirby Adams said, "Europe has exited recession though recovery is still weak. There is confidence about the first half of 2010-11. But this cannot be said about the second half." Europe grew almost nothing in the first quarter of 2010. According to Adams, European steel consumption is to grow 15 to 20 percent to 140 MT this year. In contrast what reinforces optimism about steel is a remarkable 40 percent jump in Japanese exports in April led by strong overseas demand for cars and semiconductors. As automobile exports doubled and semiconductor shipments rose 35.5 percent year-on-year, Japan earned US\$ 65 billion from exports.

Roongta has been optimistic throughout about steel continuing to do well in China and India even when the world economic scene turns difficult, such are their domestic metal requirements. And now Japan is back in the reckoning. What is encouraging is that as much new capacity is in the pipeline, the industry, particularly its bigger constituents are marking their presence in hitherto unexplored markets and also mounting service centres. Tata Steel Managing Director HM Nerukar, says that India's steel use will once again be growing 14 percent this year to 72 MT from 63 MT. The good thing is Indian market for steel is expanding.

In an attempt to ensure raw material security, NTPC, India's largest power generation company is set to acquire controlling stake in a US\$ 720 MT coal mine located near Perth with a total consideration valued at US\$ 1- 1.5 billion. This would enable the company to mine 10 million tons coal annually to



generate about 3,500 MW of power capacity. NTPC needs about 125 million tons of coal annually for existing power plants and it imports 10 MT to meet the gap. The imports are expected to cross 30 million tons by 2017, forcing the company to look at alternative routes to build fuel security. It is already working on its eight captive coal blocks with peak production capacity of 83 MT per annum.

"The company has various offers from Australian power producers for the acquisition of their assets, smaller power projects along with captive coal mines and large Greenfield projects for which negotiations are going on", according to NTPC CMD R S Sharma. A high-level delegation from the power ministry and NTPC, will be visiting Australia to finalise the details of the proposals at the earliest. NTPC is also in an advanced stage of discussion to pick up equity stakes in two coal fields in Indonesia and is studying the prospects of acquiring interest in two coal blocks on offer in Mozambique and one in South Africa.

The shortage of price support is fuelling expectations of further weakness. Nearly all buyers are persisting with their cautious procurement strategies. Sales volumes of flat products continue to be subdued. With effective prices under pressure, most genuine buyers have postponed booking material and are observing the

market trends. Recent weakness in import quotations has placed pressure on local producers and re-rollers to ease their price demands.

So far, the domestic steel industry has opted to either suspend sales or operate at reduced utilisation rates. Low activity has prompted procurement managers to indicate that there is no urgent need to replenish their inventories. The sourcing of ferrous scrap and semi finished steel products has been deferred. The prices for these inputs have undergone a severe price correction.

After a long wait of five years, Tata Steel finally succeeded to lay the foundation stone of the plant at Ambagadia in Kalinganagar, Orissa. Neither was there opposition by the tribal group nor was the police present. The surprising element of the low-key foundation stone laying ceremony was that the rituals were performed by the tribal priest. The other steel major Posco, however, continues to struggle to enter into its project area. Adani group is now focusing on acquiring coal mines in South Africa following the successful acquisition of coal mines in Indonesia to run its thermal power plants in the country. The Adani group is likely to enter into port development activity in South Africa.

The Adani Group Chairman, Gautam Adani, recently called on South African President Jacob Zuma, in this regard. "It

was a courtesy meeting and Adani expressed interest in developing infrastructure and resources projects in the country," the company spokesman said. The President emphasised the warm historical ties between South Africa and India and expressed his wish to further economic relations with India and other BRIC countries. The Adani Group has identified a couple of projects for further investigations in the infrastructure and resources sectors and is setting up a framework with South African partners in furtherance of the transformational objectives of the South African people.

The upcoming 8,000 MW coastal thermal power projects of Adani Power Ltd at Mundra and Dahej are entirely based on imported coal. The Adanis' foray into South Africa for acquiring additional coal mines and ports is seen as hedging as well as ensuring coal supplies for their power production capacity expansion in the country. Even Tata Power, which is setting up a 4,000 MW power project at Mundra, has coal mines in Africa. Besides, other power players such as Gujarat Mineral Development Corporation are also looking at Mozambique and other African countries with a similar objective.

Tata Steel Ltd. India's largest steel maker group posted a consolidated net profit of Rs 2,434 crore in the fourth quarter of fiscal 2010 on strong demand from user industries such as automobiles and construction. The price hikes pushed through by Corus Group Plc, its European unit, also helped the company post a strong profit in the fourth quarter. However, the company has reported a consolidated net loss of Rs 2,009 crore for the year, compared to a net profit of Rs 4,951 for the year ago period due to restructuring costs at its UK subsidiary Corus. European outfit Corus reduced capacity in the first half of the year due to the financial crisis.

The turnover also contracted because of a collapse in steel prices. Total income decreased from Rs 1,47,594.9 crore the year before to Rs 1,03,579



crore this time. In a statement issued the company said its group operating profit in the just-ended fiscal year halved to Rs 9,340 crore compared with Rs 18,495 crore in the year-ago period, due to lower capacity utilisation and lower average selling prices.

The fourth quarter of 2009-10 was an improvement on the earlier ones. Group profit after tax was Rs 2,434 crore in the quarter, compared to a loss of Rs 4,536 crore in the same period last year. Group EBITDA (earnings before interest, taxes, depreciation and amortisation) in the quarter rose by Rs 5,612 crore, compared to a loss of Rs 279 crore in the corresponding quarter of the earlier year. The fourth quarter EBITDA was higher by 57 per cent over the third quarter. The net profit on a standalone basis for the fourth quarter rose 48 per cent, to Rs 2,162.28 crore from Rs 1,459.29 crore for the period. The standalone net revenue went up by 13 per cent to Rs 7,339.44 crore against Rs 6,497.93 crore.

Steel Authority of India (SAIL) is likely to cut flat steel product prices by Rs 1,500-2,000 per ton, according to a top company official. SAIL's Assistant General Manager, Flat Steel, R K Srivastava said, "The domestic inventory has piled up following rising imports and hence the price cut is likely to be implemented from June". Currently, SAIL produces 12.5 MT of steel, of which 60 per cent is flat steel

and 40 per cent long steel. Flat steel products are used mainly by appliance and auto makers. The price cut is seen temporary in view of imports, which have risen currently due to strong domestic demand, Srivastava said.

In the meantime the steel ministry has said that it will restructure the board of SAIL. This will be done so that the firm is able to function in a more flexible manner. The ministry has asked for the approval from the Union Cabinet for appointing seven new independent directors. The current size will also be reduced from 24 to 18. According to sources, if the SAIL board's size is pruned to 18, Maharatna company would have to have at least nine independent directors on the board. The names proposed for independent directors include Jagdish Khattar, former CMD Maruti Udyog; PK Sengupta, former Chairman Coal India; PC Jha, former Chairman of Central Board of Excise and Customs; Ranjana Kumar, former Chairman of Indian Bank; S Chaudhary, former CMD of Coal Mines Planning and Development Organisation; one expert either from railways or port sector; and one from the merchant banking sector as independent directors for advising the behemoth on mergers and acquisitions.