

Ispat is planning for both forward and backward integration : Ashok Bharadwaj

Ispat Industries Limited (IIL) is one of the leading integrated steel makers and the largest private sector producer of hot rolled coils in India. Set up as Nippon Denro Ispat Limited in, IIL has steadily grown into a Rs 9,400-crore company, assuming its position as flagship of the reputed Ispat Group. A corporate powerhouse with operations in iron, steel, mining, energy and infrastructure, the group today figures among the top 20 business houses in the country.

Here is an in-depth interview with Mr Ashok Bharadwaj, Director (Marketing) speaks about Indian steel market and the company's future plans

Q) After experiencing hard time last year, the steel industry is talking about a revival, so how do you see this year for Indian steel industry?

A. Bharadwaj : The year 2010 -11 seems to be a year of strong demand with the help of government support and funding in infrastructure sector. It will definitely increase the steel demand.

We can see that the steel demand has grown well around CAGR 9 percent in last 5 years. Steel demand in India rose more than 8 percent in 2009, buoyed by the government's focus on infrastructure and revival in the automobile and consumer goods sectors of Asia's third-largest economy. In April-09 to Mar-10, HR production is expected to be 18.46 million tons higher than the last year's production of 16.28 million tons.

Global steel production, however, fell 8 percent last year as demand from key industries shrank amid the economic downturn.

Following are some key facts about India's steel industry, which is witnessing growth rates second only to China.

† India's iron and steel industry contributes about 2 percent of gross domestic product, or about USD20 billion to the country's USD1 trillion economy.

† India is now the fifth-largest producer of steel in the world, behind

China, Japan, Russia and the United States. It produced 55.1 million tons of the alloy in 2009, but is still only a tenth the size of China, the No.1 steel producing country.

† State-run Steel Authority of India is the largest producer, with capacity of 13.8 million tons.

† India's steel producing capacity is likely to touch 120 million tons by 2011-12, according to the steel ministry. Based on planned projects, capacity could go up to 293 million tons by 2020.

† Regional governments have signed 222 MoUs for planned capacity of 276 million tons.

† India has immense scope for increasing consumption of steel. Current per capita consumption is around 50 kg, compared with 100 kg in Brazil, 250 kg in China and a global average of 198 kg.

† India's growing status as a global small-car hub is drawing global steel makers, especially Japanese firms, to the country. World No. 2 steelmaker

Nippon Steel is in talks with Tata Steel for an automotive steel joint venture, JFE Steel has tied-up with India's JSW Steel, while Sumitomo Metal Industries Ltd is considering a JV with Bhushan Steel.

† Indian steel companies have been among the best performing stocks in 2009, widely outperforming the benchmark stock index. The factors that will help in boost of demand is FAI boost in 11th Plan, our positive demographic dividend, discretionary spending in auto and consumer durable, more residential construction, Bharat Nirman—specially huge impetus in rural demand. Steel demand by 2012 is going to be approx 100mln MT.

Q) Now, the government is concentrating on infrastructure activities. Do you think this move will help the industry to a large extent?

A. Bharadwaj : With the economy poised to register a 7.2 percent economic growth in 2009–10 fiscal and the government pegging the GDP growth at around 8 to 8.5 percent in 2010–11, the target can be achieved only by removing various policy bottlenecks and accelerating spending in the infrastructure sector with the active and aggressive participation of the private sector under the public private partnership initiatives.

According to government estimates, around USD500-billion of investments are required in infrastructure development over the next few years. This will directly impact the consumption of steel especially structural grade steel.

With the new concept of Steel structures and Living structures coming in or rather we can say being accepted by people in India this will increase the sales of steel hugely. Also government thrust to infrastructure will support the steel

industry to a great extent by increasing demand many folds.

Q) Seeing a revival in the Indian market, most of the Indian steelmakers are hiking prices of their products. Is Ispat planning to do the same?

A. Bharadwaj : There is wrong perception that Indian steel makers are hiking prices. In reality all the raw material providers of the steel industry are increasing their prices and steel industry is forced to pass on the same to their customers. Steel industry is finding it difficult even to pass on their entire cost push to their customers.

Q) Many international steel giants are coming into India through setting up joint ventures or acquisitions. How will Ispat Industries prepare for the competition?

A. Bharadwaj : As many steel giants are coming up in India, Ispat industries should be prepared to face tough competition in future and sustain

† As the competition is increasing, Ispat is planning for both forward and backward integration.

† Raw material securitization is required to make our steel more competitive.

† Ispat will strengthen its distribution channel and focus on customer service more to have a more sustainable future.

† Ispat will add new products in its range so that it can keep pace with the new demand of the customers and become a preferred supplier

† Ispat is also planning to move up the value chain by entering into areas like fabrication for construction sector, setting up steel service centers, opening up more number of retail outlets to reach to the last mile customers, etc.

Q) Indian steel industry is expected to

double its capacity by 2012. What will be Ispat's contribution to the same?

A. Bharadwaj : Currently Ispat's integrated steel plant capacity is 3.3 million tons which it intends to increase to 4.2 million tons in next one year through debottlenecking and modifying certain key plant facilities.

Ispat has also signed an MoU with Govt. of Jharkhand for setting up a 2.8 million tons per annum steel plant and this can only be implemented once iron ore mines are allocated to Ispat and also the land issues are resolved.

Q) Please tell us about Ispat Chowk initiative.

A. Bharadwaj : The brand - ISPAT CHOWK - a place of confluence, where 'the right product', at 'the right time' to 'the right place' with 'best service' meet to deliver value to end customers.

We have 54 retail outlets currently which will be branded as Ispat Chowk and we will reach up to 100 by this Sep'10.

This retail outlet is opened to cater to small offtake customers. This also helps customer in taking the material as and when required and in whatever quantity they require so that there is less working capital blockage and for less time period.

Q) Could you tell us about the company's future plans?

A. Bharadwaj : Ispat is currently focusing on the following plans :

- i) Putting up a 1 million ton per annum coke oven battery.
- ii) Completion of 110 MW process gas based power plant.
- iii) Start up of iron ore mines.

The above plans are likely to be implemented in the year 2011 and 2012 in a phased manner and this will bring down the cost of steel production substantially and will improve the EBIDTA margin.

