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# 'Spread liberalisation over time to help domestic industry'

## INTERVIEW

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WITH rising input costs and firm demand, steel prices have been heading northwards internationally. The domestic steel industry has benefited from the global rise in steel prices, but it also has tariff issues it must keep an eye on. Prices have yet to reach the peak of 1995, according to Mr Raman Madhok, Joint Managing Director and Chief Executive Officer, Jindal Iron and Steel Company (Jisco). "India cannot ignore protection of its own core industry. Any liberalisation should be spread over a time span to minimise damage to the domestic industry," he said in a recent interview to *Business Line*, just ahead of the US decision to lift tariffs.

Jisco and Jindal Vijayanagar Steel Ltd (JVSL) returned to profit in the last one to two years. What would you attribute the return to profitability to — hike in steel prices?

Jisco and JVSL in the last few years have been concentrating on strategic cost reduction, benchmarking study for competitive edge, investment in human resources and de-bottlenecking of facilities. Besides this, emphasis on cus-

tomers relationship management and export of value-added products were the two-pronged strategies to face the competition.

Now, both the companies are ready to take the benefit of improvement in steel price. In addition, financial re-structuring in both companies and use of cash accruals for debt repayment ensured that interests costs would be at a lower level. The combination of these factors has helped Jisco and JVSL return to profitability.

How would you describe your decision to merge the two companies, particularly the complex pattern in which it had to be done?

The merger will help create a fully integrated value-added steel company. The value addition will be over 100 times (from prices of iron ore at Rs 300 per tonne to that of galvanised steel at Rs 30,000 per tonne.) The merger looks complex because the corporate debt restructuring mechanism has also been put in place. Second, we are segregating the investments from the operating companies to have focused steel business. The merger will result in synergy between the two companies and optimisation of costs. It means creating a conglomerate which may be among the Top 20 Companies club in terms of profit, sales and assets. In India, this will be the



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— Mr Raman Madhok, CEO, Jisco

number two integrated steel plant next to Tata Steel in the private sector. The merged entity will have capacity to leverage its strong balance sheet for organic and inorganic growth.

The merger will also insulate us from volatility of steel prices. It will also be a tax advantage for the merged entity due to the accumulated losses of JVSL.

What impact on finished steel production cost does an actual merger of the two companies have? Jisco is a manufacturer of value-added steel products and as such is vulnerable to steel prices. The merger will help minimise this phenomenon. Also, benefits of economics of scale will reduce the cost of production.

Currently, Jisco and JVSL are standalone players with good EBITA (earnings before interest, tax and amortisation) margins in the industry. Also

in certain parameters such as productivity, refractory consumption, we are close to the world's best parameters. We are confident that in the near future, Jisco and JVSL will be one of the most cost-efficient producers of steel in the world.

The rising trend in steel prices has hurt steel consumers to the point that calls for low import duty on steel have poured in. Should the duties be relaxed, how resilient would Indian steel producers in general, and Jisco & JVSL in particular, be?

The Indian steel industry has now become a global player and is exporting its products worldwide. The price policy of Indian steel companies is largely dependent on the international market. Domestic prices are currently

much lower than home country prices of major steel-consuming countries such as

China, EU, Japan and Canada. The tariffs that are prevailing in markets such as the US, Europe, Brazil, Canada, China are much higher compared to India.

Prices have not yet touched the level of 1995. Steel companies' profitability and return on net worth have been one of the lowest. India cannot ignore protection of its own core industry. Any liberalisation should be spread over a time span to minimise damage to the domestic industry. Further, steel constitutes a very small cost of input in most industries. However, Jisco and JVSL are focusing on global competitiveness and in the next few years will develop necessary resilience to withstand the cyclical nature of the industry and protectionist policies.

What is driving steel prices? Is it merely a case of shadowing global trends or

have input costs risen sharply? What steps have you taken to manage input costs?

The main factor driving steel prices is the rising consumption of steel worldwide. In India, consumption of finished steel during the April-to-October period was estimated at 166.5 lakh tonnes, representing a growth of 3.3 per cent over last year's consumption. Exports are expected to touch the 5-million-tonne mark in fiscal 2003-04 from around 4 million tonnes last fiscal. The key drivers for the prices are government spending on infrastructure, construction activity and the automobile sector.

In addition to global trends, all the input raw material costs such as that of iron ore, sponge iron or pellets, coal, coke and power have gone up several fold in the last few months. We have taken initiatives to reduce our cost in the entire value chain. We have negotiated long-term contracts with our logistics partners and also with raw material suppliers to improve our operational efficiencies. We have embarked on benchmarking exercises for Jisco with Hoogovens of the Netherlands and for JVSL with JFE of Japan. Our constant endeavour is to reduce cost so that we can compete globally in all the five continents.

The first quarter of 2004 is again forecast to be a time of

tight steel availability. What is your view on the price front? The prices really reflect the demand-supply equation internationally and fairly represent operative capacities and infrastructure demand-pull. The first quarter of 2004 may witness a price increase of over 10 per cent from the current price levels (HRC base 330 f.o.b). The limit is buoyant.

Is there any mileage for Indian steel exporters such as Jisco from the opposition to US steel import tariffs, displayed by a basket of countries ranging from EU to China?

There was no tariff barrier for galvanised steel to the US. We do not expect adverse effect if the tariffs are removed as we supply thin gauge of galvanised steel to the US. The cost of production between the others and us is quite wide. Thus, with lower cost of production we will be able to still export.

What is your short- to medium-term growth plans? Does it include exploration of overseas opportunities?

Medium-term plans include expanding the galvanised capacity to 7.1 lakh tonnes; also planning to put colour-coating line with a capacity of 1 lakh tonne per annum. With the de-bottlenecking exercise, we will expand our capacities from 1.6 million tonnes to 2.4 million tonnes at JVSL.