

CEO of Jisco looks forward to a good 2003

By Ninad Bhatkar and G Venkatesh



Raman Madhok, Joint Managing Director and CEO of Jindal Iron and Steel Company, the arm of the OP Jindal Group which is the leading producer of galvanised steel in India,

believes that the secret behind JISCO's progress and growth is the ability of the company to 'take the rough with the smooth' and be there to ride the crest in the cyclical business that steel is. JISCO has manufacturing facilities at Vasind and Boisar (both in Maharashtra). Here are excerpts from a conversation he recently had with Minerals and Metals Review.

In a move which is sure to impact global steel trade in more ways than one, US has decided to cut its steel exports to China. Could you dwell on the pros and cons of this decision?

RM : The US has been a net importer of steel, traditionally. Their exports have looked up only in the recent past. More exports out of the US have resulted in the domestic prices going up, and domestic demand having to be met by imports, which are costlier at times. The US being a relative greenhorn in steel exports sometimes ends up selling steel in markets like the Chinese one for

less than what it could actually claim for its products. The steel producers in the US evidently see greater sense in selling within the country and reducing the dependence on imported steel as much as possible.

While still training the lenses on China, is the demand there really growing as fast as it is reported to be?

RM : Yes, after my recent visit to China, I can safely state that the demand in China is here to stay for a long time to come. Galvanised steel for one, which happens to be JISCO's product, will, in the years

to come find great demand in the Chinese construction sector. Over 3 million tons of galvanised steel was imported by China last year. The trend will continue for a few more years until local supplies catch up with demand.

Will galvanised steel prices rise in the months to come? What are the factors influencing it?

RM : Yes, it is true that prices have soared in the last few months. However, some correction may happen in next one to two months before demand again catches up with supplies. Prices of galvanised steel are dependent upon the prices of HR coils, and generally, it takes a finite time period for the increase at the lower end of the process chain, to be reflected at the upper end.

It also depends upon the variation in the cost of zinc. Zinc prices have been quite consistent over the last few months; hence, these have not been actually influencing increase/decrease in the galvanised steel prices. Further, if the thickness of the finished product is to be less, the number of roll passes will increase, and automatically, the price of the galvanised product will go up. If I could hazard to quote an

international ballpark figure, I would say that the conversion/value addition costs of HR coil to galvanised steel is around US\$ 200/ton. However, all galvanised steel producers have been successful in cutting costs over the last few years and this value would vary from one producer to another depending upon the efficiency of operations and the degree of success attained in cutting costs.

Do you source all your zinc indigenously? What about the HR coils?

RM: Yes, at the moment, we have an agreement with Hindustan Zinc Limited (Sterlite Group) from whom we source all our zinc requirements. Earlier, it was a mix of imports and indigenous supply.

As far as HR coils are concerned, we get it from our group company - Jindal Vijaynagar Steel Limited.

This is source of a competitive advantage to us. We get our material in "just in time" and hence hold just a few days raw material inventory. We get coils according to our order bookings and this helps in reducing wastages and hence reduces cost of production. Our customer requirements are met in a timely manner because of consistent, on time as required deliveries by JVSL.

What percentage of the cost of producing galvanising steel is due to zinc?

RM: An average of about 4-5%.

How has the export market been for JISCO?

RM: We export our galvanised steel to over 40 countries of the world in five continents. We are among the lowest cost producers (and also the highest producers of galvanised steel in India) and have

been successful in selling in foreign markets at cheaper prices and thus competing effectively with the local producers there. Almost 80% of our produce lands in foreign markets. During the last fiscal, we have exported over 400,000 tons of material worth over Rs.1000 crores.

How is JISCO different from other galvanisers?

RM: At JISCO, we have over a period of time tried to create differentials, which are not very easy to be copied. To give an example even if prices fluctuate in a given market, we have at times catered to the needs of the same by incurring losses in the short term, because we have realised that the cost of re-entry can be very large. With four galvanising lines and eight cold rolling mills, our response time to customers is of very high level. We sell our products as a branded galvanised steel rather than as a commodity. In the export market, it is sold as 'GALUPLUS' and in the domestic market as 'JINDAL VISHWAS'.

We have a very high interaction with our customers in all our markets. Technical, commercial and marketing personnel are constantly in touch to understand the needs of the customer and always try to deliver more than his expectation. We have long-term contracts with our shipping agencies, which help in reducing costs in the supply chain, which invariably are passed on to the customers.

Is steel making a highly power-intensive process?

RM: Yes, steel making process, consumes a lot of power. If the Electric Arc Furnace route is used, then more power would be used.

In Maharashtra, tariff is

charged even for the power one produces using in-house generator sets. I would suggest a 'wheeling and banking' system in the state, whereby the captive power plants could sell power to the State Grid, and thus contribute in a big way to bridging the demand-supply gap of over 2000 MW.

Your comments on the National Steel Policy?

RM: I believe that integrated steel plants in the country will be able to comment better on this subject. However, as galvanised steel makers, we would like to stress that the market for our product has opened up of late, and this is justified by the export tonnage, which we managed during the last fiscal year. I would look forward to the NSP addressing issues related to the growth of those categories of steel, which have a good export potential.

NSP should also address the substitution of asbestos by galvanised steel in construction applications. Asbestos is toxic especially at the production stage and there are many who have fallen prey to asbestosis, which affects the lungs, in India. It is heartening that there are certain instances where structures, which hitherto had been made of asbestos, are now being made of galvanised steel/stainless steel. The railway station at Koparkhairane in New Mumbai, for example, has used steel for the roofing's and the walls.

Further, the auto industry is currently importing steel for auto bodies. If the NSP stresses on indigenous R&D which would lead to production of automobile body steel within India, it will augur well for the steel producers here. Automobiles use Cold Rolled Closely Annealed steel, which are duly painted to impart corrosion resistance. This can be

replaced by thinner and stronger galvanised steel conferring not just corrosion resistance but also the benefits of lower weight, and hence greater fuel efficiency.

Assuming that all asbestos is substituted with galvanised steel, will the domestic production be sufficient to meet the demand?

RM : No, the demand will be greater than what the present galvanised steel capacity in the country can supply.

When the Golden Quadrilateral project picks up steam, will it mean more consumption of galvanised steel?

RM : Yes, it will definitely create more demand. Crash guards for one will require galvanised steel. Worldwide, steel is being used in bridges extensively - in Japan and Korea especially. If India decides to follow suit in order to exploit the benefits of recyclability, longevity and strength, more of galvanised steel will be seen out there on the country's roads and highways.

In China for one, though the older airports have used cement concrete, the newer ones which have sprung up have used steel - stainless or colour-coated along with glass. They take less time to build and are more beautiful to look at.

'India following suit'. It seems easier said than done.

RM : It does, but it is possible. We have been working among young minds in architect and design schools in the country encouraging them to think in terms of using galvanised and other kinds of steel in lieu of cement concrete in their designs.

Any new applications that are looking at?

RM : Water tanks. The plastic reservoirs, which are being used,

absorb ultraviolet rays and this results in the water stored in them, becoming carcinogenic. Replacing these with galvanised steel is beneficial. Even if the zinc dissolves in the water, it turns out to be beneficial for the human body, as zinc is a micronutrient. We have already supplied about 500 water tanks of 1500 litre capacity each to gram panchayats/school and other bodies all over India.

Decking made of galvanised steel, in lieu of wood, help to cut down the time required to erect an building. This saves construction time more than compensates for the higher costs that are incurred in using galvanised steel, instead of wood. Steel is also reusable and we must work towards protecting our natural resources.

Do stainless steel and galvanised steel compete with each other for any application?

RM : No, they do not. One cannot be replaced by another. Each has its unique set of properties essential for the application considered. However, for aesthetic reasons, big-budget projects can afford to use stainless steel in lieu of galvanised steel.

Your views on the duties and levies that exist in India?

RM : I would appreciate a uniform levy structure, which will make competition healthier in the country and selling easy in the country.

When the going got tough, how did JISCO react?

RM : We continued to produce, restructure and adjust. We never resorted to any shutdowns. Cost cutting measures and new processes came into play and our concerted efforts even when the chips were down ensured that we would be riding the crest of the

wave, when the good times would fly in. Luck comes when preparedness meets opportunity!

Steelemart.com. The trading portal promoted by the Jindal Group. How is it faring?

RM : It takes care of the secondary sales and diversion sales (sales of those products which do not conform to the buyers' specifications) of our products. It shows promise of working well as an add-on facility. Since people have become tech-savvy of late, a portal serves as a medium, which has enhanced our reach in the market.

An interview would be incomplete without a query regarding future plans...

RM : Debt reduction, debottlenecking and employee motivation and retention are the three key areas we would be stressing on, in the coming months. Our capacities will increase, owing to the debottlenecking operations. We are also in constant touch with our customers to develop new grades as per their requirements.

Those were your future plans. Your forecast for the future for the steel sector?

RM : Well, 2003 is going to be a good year. Steel being a cyclical business; it will not be easy to make accurate predictions about the market however.

As the prices get better, there is a possibility that some closed units will reopen and introduce some kind of a price correction. However, come what may, any steel maker who has been able to exercise control over his outgo, and has been able to restructure and cut his costs, need not be alarmed. His business may not be high profile, but it will always be steady and healthy.