THE HINDU BUSINESS LINE

'Steel is no longer commodity, it's a product'

— Mr Raman Madhok, Jt Managing Director & CEO, Jindal Iron

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AMIDST better times for steel manufacturers, Jindal Iron & Steel Company Ltd (Jisco) could be said to have fared particularly well, courtesy its presence in galvanised steel and high share in exports of the same from India. Mr Raman Madhok, Joint Managing Director & CEO, spoke to *Business Line* briefly about his company and the galvanised steel sector. Excerpts:

With profit reported for the third quarter of 2002-2003, how does the rest of the year look to you?

I think fiscal 2002-2003 will be better than what we had planned. What we had budgeted for were conservative numbers, our plan was ready by March 15, 2002 with rollout from April 1. But in July we recast our plan and interestingly we are very close to what we had anticipated in the next six months. May be an upswing of five per cent on that. So, we were looking at an EBITDA of Rs 240 crore in our plan and I think if all goes fine we should exceed that by at least by 15-20 per cent. We should earn Rs 50 crore from our HR mill, which we restarted recently.

What factors helped you?

We must go back to what we were doing for the last 4-5 years. We were conscious of the fact that the steel industry is cyclical. But the periodicity of the cycle, about three-and-a-half to four years, is getting compressed. Besides, the kind of crests and troughs in these cycles are changing drastically. Today, if you try to predict what is going to happen even on a yearly basis, it is tough. What we did was – to look at our internal processes. In 1997, 1998 and 1999 we worked with British Steel consultants, Viscose. In 1999-2000 we worked with Anderson Consultants and looked at all opportunities to earn more and reduce cost. We look at the way we serviced customers, changed our focus from product segmentation, did not run our HR mill for 18 months – about Rs 250 crore investment that we did not use – and removed intermediaries. When the change came in April we were at the right place to climb the crest, and we did not have to climb slowly. These factors helped us post results 5-6 per cent higher than those in the galvanising business.

Our EBITDA return is almost 21 per cent while competition is in the range of 12-14 per cent.

Things look good because we are already booked up to March 31. Today, we have a problem – we do not want to sell our April-May production though there are buyers. Reason – prices are continuing their upturn at a fast pace and we don't want to get caught selling cheap.

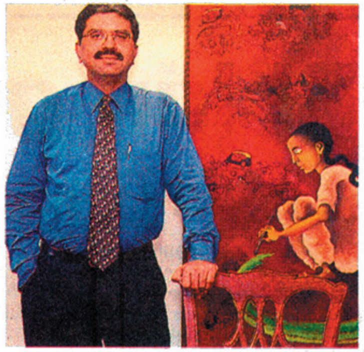
How do you explain the fact that exports have been sustained at a time when the US economy's fundamentals remain weak? How long do you see the upturn lasting?

Worldwide if prices have shot up in a big way it is in galvanised steel. There is a reason for that. The US has been growing 4-6 per cent in construction and housing sectors because of low interest rates. People went in for re-financing and new house purchases. They require our steel because we offer products that are less than 0.5 mm thick. US mills do not produce such thin material because they get their incentive on per tonne basis. So, consciously we have placed ourselves in a niche in which we have little competition.

We export to all five continents, 140 countries. Based on margins we shift but never exit any market. So, when the swing came, we got the best prices. Loyalty works well between customers and a company.

But how sustainable is this trend? Economies are still soft.

Give me another million tonnes, I will be able to sell. At Jisco, we supply 100 per cent what we commit. We are not yet at 1995 prices. Crude oil prices may be higher but that's good in a way. Partly funded by the US, Russia is now building a pipeline that takes its oil closer to the North Sea fields. Construction in Russia, using thousands of tonnes of steel, is helping to maintain prices. Besides, prices of coal, iron ore, scrap and coke have gone up. With input costs up, it is obvious that HR coil costs go up. Despite this, steel companies have maintained operational efficiencies. They cut these costs but there is a conversion cost, margins have changed and because of the demand-supply gap, companies are able to push their products. Prices in the domestic market are high because there is very little material. The moment exports stop, prices will begin to depress. So I am taking material out.



CORPORATE INTERVIEW

Steel cycles have got compressed. What is generically different about steel companies now?

Managements of steel companies know they cannot ride the wave permanently. Sourcing of raw material has changed. In the past import dependence was high. Today, at Jisco, we buy our material with three days inventory, courtesy backward integration to Jindal Vijaynagar Steel Ltd (JVSL). We can recast steel according to our requirements. Money is turning around faster. In nine months of business, we were able to bring all our debt in line. Nearly, 15 per cent of our interest cost is going to come down this year.

In the past, companies went in for expansion during good times. Today, companies are ensuring that they remain robust, so they can survive a downturn. In the past, steel was seen as a commodity. Now, it is a product. Previously, companies were production driven but today they are customer oriented.

What is Jisco's debt level now?

Our outstanding debt is about Rs 900 crore. We will be down to Rs 700 crore when we open the next fiscal. The average cost of borrowing will dip from the earlier 13.5-14 per cent, to about 11 per cent.

What do you think of UTI's 60-month package? Does not 60 months contrast the shortening cycles in steel?

UTI was helpful and aware of the fact that steel industry is different. There were some changes at UTI too, hence the time lag in the restructuring plan. We have already paid Rs 40 crore and will pay another Rs 5 crore by March 2003. UTI has waived its penalty of Rs 12 crore. We have to pay Rs 7.62 crore for the next 60 months.

Year 2004 should be good for galvanising. There is a three-month gap before decline in steel prices impacts galvanised steel. If things go well for the next two years, we will expedite repaying some of our borrowings. Whatever money we make, we will use for de-bottlenecking operations and to cut our debt and interest payments. We have another CR mill that is going to start in March 2003. It is coming up at a time when payback is reduced to six months from one year because of the swing in the CR market.

Where would you rank in cost of production?

In a global study, Jisco was among the lowest cost producers of galvanised steel. One of the indicators is EBITDA. Galvanising is a fragmented industry, close to 500 units worldwide. We are able to compete in almost every market at prices lower than the local prices. This provides us an entry.

What is the future of galvanised steel? Are there any technologies that you are looking at?

Bright for us at Jindal. We are working with young minds – talking to students and asking them to work with galvanised steel. It can replace wood and cement. In China, construction industry uses galvanised steel. In India, the ratio of cement to steel is 4:1 while in China it is 1:1. In the US it is 1.5:1. Steel has advantages, but is perhaps a bit expensive. In India, if asbestos is banned, steel demand will rise by 2.5 million tonnes a year. As there are no further investments, we can expect a demand-supply mismatch next year.

What we are looking at is value-addition – colour coating, a small segment here. As a part of future expansion, we will look at it. Unfortunately, our project with British Steel on colour coating has been shelved or we would have been there.