Jisco steels its resolve for a robust turnaround

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JINDAL Iron and Steel Company Ltd (Jisco) is not likely to return to profitability this fiscal as its turnover is seen dipping by 20 per cent to Rs 1,200 crore. "However, we will be able to reduce losses," Mr Raman Madhok, Joint Managing Director & CEO of the company told *Business Line* in an interview. Excerpts:

What are your strategies for returning to profitability? Will it be possible during this fiscal?

Several initiatives that impact the profitability of a company involving people, processes and products have been taken. These include changed product mix to focus on products, which give better realisation; recast the distribution channel to sell more in Maharashtra and neighbouring states to save on freight costs; restructuring marketing to shift focus from product group to customer service; manpower rationalisation at manufacturing units; defending market share in the domestic market and expanding it in the new markets abroad; cost cutting across the value chain to enhance net realisation; building GALVPLUS brand; tighter control on inventories; exit from non-value adding products like HR plates; and redefine credit terms and movement towards more cash sales to reduce interest costs.

To what extent is your hot rolled plates business affected by the fall in prices? You had temporarily stopped production of hot rolled plates at the Vasind plant. What is the status of this move?

Hot rolled business was adversely affected since exports to the US took a heavy toll on the business of SAIL, Tisco and Essar Steel. Also Ispat and JVSL entered this business as a result of which most of the rerollers who were dependent on some external source for slab had no choice but to either suspend operations or close down.

While HR coil prices fell globally, HR slabs did not. Therefore, it is unremunerative to run our hot rolling business. Our operations will remain suspended until HR plate market picks up and we get at least Rs 2,500 per tonne of conversion costs.

In 2000-01, Jisco's turnover rose by 30 per cent, boosted by demand for galvanised steel. How is this business poised and to what extent is the net sales realisation down?

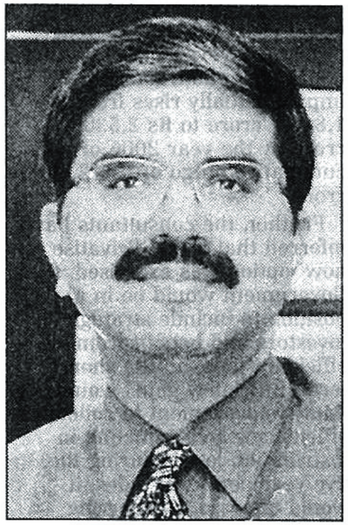
Jisco achieved 30 per cent growth in turnover not only on account of a boost in steel demand but also a rise in exports by 83 per cent. We entered in a big way in USA, Europe and the new markets of South Africa and Latin America.

This year, turnover will be lower than last year due to the fall in HR coil and zinc prices. Our net sales realisation have come down because selling prices have also come down. As a reroller we are primarily making money on our brand equity and conversion costs. As per our business plan our turnover will be Rs 1,200 crores, down by 20 per cent. Net sales realisation is down by nearly 15-18 per cent as compared to last year.

However, we should be able to maintain our tonnages.

INTERVIEW

Jisco is fundamentally a very strong company. As long as we maintain cost leadership in processing costs and keeps our market share, we have nothing to fear. Today, we aren't doing well on the stock markets because large investments made by Jisco are not fetching it appropriate returns. I am sure the scenario will improve soon.



Mr Raman Madhok, CEO, Jisco

How is Jisco's export turnover seen in the current fiscal, as demand from USA was sluggish in the first half? To what extent has the rupee depreciation come to your aid?

In the current year from April to September, we have exported 120,000 tonnes, of which 24,000 tonnes to the US (40,000 tonnes). As we are broadbasing the markets, we were able to achieve 90 per cent of last year's performance. This shortfall was mainly due to hike in oil prices worldwide leading to a slowdown in the global economy.

The weak euro has further added to the lower price realisation of our products in the European market. Due to the fall in prices globally, the rupee depreciation has just helped us to remain active in the existing markets.

In the last one year, how much have prices of galvanised steel fallen in percentage terms. Where are they headed?

Prices have come down by 20 per cent, largely because of reduction in HR and zinc costs. HR prices have fallen by nearly Rs 2,500 per tonne and zinc has come down in the last six months from $1,050 a tonne to $800. We expect prices to recover during the second quarter of the calendar year 2002 as many of the inefficient steel mills might close down.

To what extent is the anti-dumping policy of the US and EU affecting your company's sales and thereby bottomline?

EU and the US have not levied anti-dumping duty on galvanised steel so far. In Canada, we won at the investigation stage. However, local producers have appealed against the judgement and we are awaiting its outcome. Our exports to Mexico, Venezuela, Africa, Italy, Germany and the US are on as usual. The US has imposed anti-dumping duty on hot rolled products from India. Therefore, vessel availability will be difficult as our products were shipped alongwith HR coils.

The European Union has already imposed anti-dumping duty on Indian HR exports. As our product is well established in the European market, we have been able to export. Quality product and timely delivery are our main strengths here.

What is the company's plans to manage its debt burden? Have any deals been finalised with the financial institutions?

We are talking to the financial institutions and have requested them to restructure our debts. A proposal is being developed based on our cashflow and earnings. We are hopeful that before the end of the fiscal year, our debt restructuring will be completed.

Are you looking at any change in your capital structure? What is the scope in this area under current slowdown situation?

This point will also be addressed during the debt restructuring exercise. However, the scope in this area for any major changes is limited.

Under current circumstances, how do you plan to manage your production costs and inventories?

We procure over half a million tonnes of coil from JVSL this fiscal. Since JVSL is able to provide us raw material with a very short lead time our inventories are much lower than what it used to be in the past. Our raw material inventory is about 15 days and finished good including transit material does not exceed 25 days.

You were looking at reducing freight and distribution costs. What is the progress in this direction?

We have been able to do reduce costs considerably during the first half. We have closed our depots and consignment agencies at Delhi, Ahmedabad, Hyderabad and Bangalore. Stopped branch operations at Delhi and Pune and reworked our despatch strategies.

We now employ a dedicated fleet of transporters to move material directly to customers thus eliminating the need to hold inventories for long. Our ocean freight has also come down because of larger shipments going as bulk cargo rather than containerised cargo.

Steel cycles are apparently getting shorter. What is going to be the long-term impact of these cycles on Jisco?

Jisco is fundamentally a very strong company. As long as we maintain cost leadership in processing costs and keeps our market share, we have nothing to fear. Today, we aren't doing well on the stock markets because large investments made by Jisco in JVSL and elsewhere are not fetching it appropriate returns. I am sure, days are not far when the steel scenario will improve and JVSL will become a dividend paying company.