

ASSOCHAM 4th India Steel Summit, New Delhi, August 11, 2010

Key Highlights

We attended the ASSOCHAM 3rd India Steel Summit, where top leaders from the steel industry and steel ministry discussed the '*Achievement and Unfinished Agenda*' of the steel sectors. The key highlights from the summit are as follows:

- ✓ Hurdles in capacity addition
 - Obtaining Statutory and Regulatory Clearance
 - Land Acquisition
 - Raw Material Security
 - Deficit Infrastructure
 - Shortage of skilled and unskilled worker
- ✓ Quarterly contracts for raw material seems unsustainable
- ✓ Iron ore exports from India have peaked
- ✓ Urged industry to invest in iron ore pelletization and beneficiation
- ✓ Safeguard duty is unlikely
- ✓ Indian companies should form consortium for acquisition coking coal assets, as well as coking coal negotiation
- ✓ Prices have stabilized post a mild correction

Hurdles in capacity addition

Although, India has witnessed a massive activity in terms of announcement of capacity addition, a very few projects has been able to take-off. As per the industry estimates, total MoU signed for steel capacity addition stands at 276 MT, nearly five times of current capacity, nonetheless, a large majority of the issue is on drawing board only. The consensus seems to be agreeing on four major factors (already widely known), which are creating major hurdles in the capacity addition.

- Obtaining Statutory and Regulatory Clearance
- Land Acquisition
- Raw Material Security
- Deficit Infrastructure
- Shortage of Skilled and Unskilled Worker

Although, these problems have been discussion earlier also, the perfect solution is still out of the radar. Through, various discussions, things become apparent that there are still differences in the thinking between government and industry. These are presented as below.

Obtaining statutory and regulatory clearance

The industry wants the government to fasten the clearance process to enhance the capacity addition, as it normally takes less than 1 year to obtain all the clearance in overseas country compared to a period of 3-5 years in India. On the other hand, government is not able to form consensus within itself. The government would need to make a compromise among different cabinets like ministry of steel, ministry of aviation and ministry of environment and forest. The different views suggested that we are still far from the response for this problem.

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Land acquisition

Steel capacity require large amount of land and it becomes difficult to get non-agriculture in a single patch. The industry wants government to take an active part in the land acquisition, as it become easy to convenience displaced public. In terms of small agriculture land, priority needs to be given to the overall development of the area as well as country. The government requires industry to make certain provision for displaced public to make them a stakeholder and help in development of the locality, which Corporate India also seems to be agreed. However, we are still not able to see the initiative from government front, as this would require the entire chain of politician from top to bottom level on the same boat, which happen rarely.

Raw material security

Multi-billion dollar investment would demand raw material security from industry in terms of iron ore and coal mine. As prices of these minerals have hit the roof in last couple of years, allocation of these mining assets have become a difficult exercise. India, being deficit on coking coal assets, remained importer of coking coal and mid size players find it difficult to imports. Though, the government seems to agree on this front, they also require industry to invest heavily on R&D activities, which would result in lower raw material consumption and usage of low quality material like iron ore fines.

Deficit infrastructure

The steel capacity addition not only requires money, land or raw material, it also require large amount of infrastructure like rail, road and ports. The widely known fact that one tonne of steel production require 4-5 tonne of material handling. The industry would not like to take the entire burden of the infrastructure developed and they require government support in monetary as well as above stated problems like obtaining clearance and land acquisition.

Shortage of skilled manpower

Although, the shortage of skilled workers is hurting the industry, this problem is likely to get more intense in coming period. The India Inc has not invested much in the human resource development in last couple of years and this has resulted in serious shortage of skilled manpower. The industry has to immediately start investing in human resource building, which should enable them to cop up the

demand expected in next couple of years. The absence of the above would lead to exorbitant rise in wages leading to more disequilibrium.

Iron ore exports from India have peaked

Despite being proximity to China, India's share in total Chinese imports have been on a declining trend largely due to factors like export duty on exports and absence of long term contracts. Though, the share had been in past couple of years, the absolute numbers were on uptrend. Nevertheless, few section of the industry is expecting that the exports have already seen its peak in the FY10 and the trend would be on downside only. The major factors behind this move remain the subdued growth in China production, export duty in India and higher production in other exporting nations like Australia and Brazil. We also expect the same trend to pan out in the coming quarter.

Urged industry to invest in iron ore pelletization and beneficiation

The steel industry is making it apparent that there is very limited iron ore reserve and it is equally crucial to conserve these resources. However, a different school of thought came from multiple quarters that steel players are mainly consuming high grade iron ore. There is an urgent need for industry to re-think this dynamism and invest in low grade iron ore in the form of beneficiation and pelletization. It would help in making the mine life longer than originally estimated. We believe, companies are making progress in this regards as all major companies are setting their beneficiation unit or pellet plant.

Quarterly contracts for raw material seems unsustainable

Although, the industry has followed the large players in terms of adoption of quarterly raw material contracts, majority still feels this approach is unsustainable. We believe, the fate of quarterly contracts would largely depend on the contracts from its customer. In case, steel industry is able to persuade its customer for quarterly contracts, then the raw material quarterly is here to stay. Otherwise, there is a high possibility of industry again moving towards yearly contracts.



Safeguard duty is unlikely

The recent quarterly results certainly add fuel in the ongoing discussion of imposing safeguard duty on metal. The net imports from China during 1QFY11 stood at 1.51 MT compared to 0.11 MT in 1QFY10 and 0.81 MT in 4QFY10. However, these imports are likely to slow down in coming months as China has cut export rebate of 9% starting from Mid Jul'10. Keeping this in mind, the government is in no hurry to take anti-trade decision. However, the government also mentioned of keeping an close eye to the situation and decision would be taken after considering further movement in imports.

Indian companies should form consortium for acquisition coking coal assets, as well as coking coal negotiation

Due to absence of good quality coking coal assets in India, country would always have to rely on imports. The Indian companies are trying hard to secure these assets abroad; however, it is far from yielding any

major results. The one of the major problem is size, as these acquisitions also require usage of other infrastructure, which is currently owned by major mining companies. The consortium would help companies to achieve economic of scale, which would help in getting bargaining power. Another school of though suggest that all Indian companies should form a consortium for coking coal contract negotiation like Japanese players, this would make India a trend setter rather than just a followers.

Prices have stabilized post a mild correction

Our interaction with industry players suggests that after couple of weeks declining prices, situation has stabilized. Long product prices have started looking up, while flat products are currently stable. Apart from steel products, coking coal prices have also stabilized in past couple of weeks, while iron ore has shown strong rebound in last couple of days. The overall scenario suggests that industry is likely to show strong trend in third and fourth quarter.



INDIA

Name	Designation	Sectors	E-mail
EQUITY RESEARCH		TEL. NO. +91 22 4076 7373	FAX +91 22 4076 7378
Ashok Jainani	VP, Head Research	Market Strategy	ashokjainani@kslindia.com
Dipesh Mehta	Sr. Research Analyst	IT, Telecom	dipesh@kslindia.com
Hatim K Broachwala	Research Analyst	BFSI	hatim@kslindia.com
Vinay Nair	Research Analyst	Energy	vinay.nair@kslindia.com
Giriraj Daga	Research Analyst	Metals & Mining, Cement	giriraj@kslindia.com
Kruti Shah	Research Associate	Economics	kruti.shah@kslindia.com
Aditya Shekhawat	Research Associate	Autos	aditya.shekhawat@kslindia.com
Dinesh Bhatia	Research Associate	Technical Analysis	dinesh.bhatia@kslindia.com
Sandeep Bhatkhande	Research Associate	Publishing	sandeep@kslindia.com
Lydia Rodrigues	Research Executive	Data Mining	lydia@kslindia.com
INSTITUTIONAL DEALING		TEL NO. +91 22 4076 7342-47/56	FAX NO. +91 22 4076 73 77-78
Biranchi Sahu	Head	Institutional Equity	bsahu@kslindia.com
Gopi Doshi	Senior Dealer	Institutional Equity	gopi.doshi@kslindia.com
Mayank Patwardhan	Dealer	Institutional Equity	mayank.patwardhan@kslindia.com
Bhadresh Shah	Dealer	Institutional Equity	bhadresh.shah@kslindia.com
PRIVATE CLIENT GROUP		TEL NO. +91 22 4200 7300	FAX NO. +91 22 4200 7399
BRANCH OFFICE (PUNE)		TEL NO. +91 20 2567 1404/06	FAX NO. +91 20 2567 1405
Ajay G Laddha	Vice President		ajay@kslindia.com

Head Office	Corporate Office	Branch Office
Khandwala Securities Limited Vikas Building, Ground Floor, Green Street, Fort, MUMBAI 400 023. Tel. No. (91) (22) 4076 7373 Fax No. (91) (22) 4076 7377/78 E-mail: research@kslindia.com Logon to www.kslindia.com	TruMonee Financial Limited 1st Floor, White House Annexe, White House, 91, Walkeshwar Road, Walkeshwar, MUMBAI - 400 006 Tel No.: +91 22 4200 7300 Fax No.: +91 22 4200 7399 Email: advice@trumonee.com www.trumonee.com	Khandwala Securities Limited C8/9, Dr. Herekar Park, Off. Bhandarkar Road, PUNE 411 004 Tel. No. (91) (20) 2567 1404/06 Fax. No. (91) (20) 2567 1405 Email: pune@kslindia.com

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