

ISA agrees to halt exports of steel

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Indian Steel Alliance (ISA) an organization of key primary steel producers in India (except Tata Steel) have agreed to a restraint in steel exports to ensure easing domestic supplies. With demand currently outpacing supply, India has turned net importer of steel. With brownfield expansions yet to commission and greenfield projects yet to take off, the demand supply situation has worsened in the recent quarters. In view of rising demand and spiraling costs, the steel majors have increased steel prices significantly since January 2008 reflected tight global markets and higher input costs. In an effort to ensure increased steel supplies to the domestic market, ISA has agreed to halt (restrain) export. We believe the move will not bring in great supplies in the domestic market, but will in turn be seen as an effort to regulate the steel industry and an indirect move to reduce domestic prices. Our discussion with various companies leads us to believe the impact of reduced exports will not be significant enough to call for a revision in our numbers. We continue to maintain BUY on Tata Steel and JSW Steel.

Indian Steel Alliance agrees to halt of steel exports

Indian Steel Alliance (ISA) India's primary steel manufacturers association today agreed to halt exports of steel with immediate effect. This announcement comes in the wake of a proposal mooted by the ministry of steel to slash import duty on steel (currently at 5%) to nil. The ISA constituent members are:

- SAIL
- Essar Steel
- JSW Steel
- Ispat Industries
- RINL
- Jindal Steel & Power Ltd.

Tata Steel is not a member of the ISA. Similarly, Cold Rolled Steel Manufacturers Association (CORISMA) is also not a part of the statement made by ISA.

Export orders, long term commitments, EPCG undertaking to be honored

As per our discussion with the industry, we understand, the halt on exports is a voluntary measure and does not tantamount to a ban. Further, all the existing orders in hand will be honored and only fresh exports will be restrained. Further, long-term contracts and export commitments against machinery imported under the EPCG scheme will be met. This implies that the export of products not under long term contract will be rolled back. We believe the impact will be minimal.

The main export constituent- GPGC has a limited market in India

India's main export products include GPGC (Galvanized Plain/Galvanized Corrugated), Pre-painted Galvanized sheets. Apart from these products, India also exports some quantities of other steel products that include Hot Rolled Coil/Sheets, Bars & Rods, and Cold Rolled Coil/Sheets. During the period from April to Dec 2007, India exported 3.5mt of steel of which GPGC accounted for 1.56mt and HR coil/Sheet accounted for 1mt. We believe, the current proposal to halt exports will not have a significant impact on availability of steel in the domestic market and will further increase supply of GPGC sheets which has a limited market.

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The problem is not exports, but rising demand and spiraling costs

During the period between April to Dec 2006, India imported around 2.9mt of steel and exported around 3.5mt of steel. Comparing this to the corresponding figures for 2007, India imported around 4.9mt of steel with exports remaining stagnant at 3.5mt. As per Joint Plant Commission, the apparent consumption of steel in India has risen by almost 12% yoy for the period April to Dec 2007 vis-à-vis April to Dec 2006, reflecting in surge in domestic demand, fuelled by strong GDP growth.

Industry Impact – is this the start of steel industry regulation or an aberration?

We view this measure as a negative for the industry from regulatory perspective, but with little impact in re-balancing the demand-supply gap. We believe the measure is likely to dampen investors' sentiments who might view this measure as a first step towards quasi-regulation of the industry in order to artificially tame inflation. With a real shortage of steel, the government is unlikely to control real inflation through a halt of exports, more so for products like GPGC which contribute to 9.3% of the total production and which has traditionally been an export oriented product.

Companies impacted – None in a significant way

- **SAIL** – the key constituent member of ISA has an annual hot metal capacity of 14.6mtpa but exports about 0.5mt (5lac tonnes) only.
- **JSW** – a member of ISA, having total hot metal capacity of 3.8mtpa. It has an export obligation of USD150mn to Duferco and further export obligations under machinery imported through the EPCG window which is outside the purview of the self restrain on exports. JSW exports around 0.12mt (1.2lac tonnes) of HR coil which is not significant.
- **Tata Steel** – Not a member of ISA, hence not bound to abide by the decision of ISA
- **Bhushan Steel** – member of Cold Rolled Steel Manufacturers Association (COR SMA) is also not a part of ISA and hence is not bound by the statement of ISA.

Our take:

This is likely to be a temporary phenomenon till inflation numbers are again in control. However, the move is likely to be seen as an effort to regulate the steel industry and further steps to regulate the steel prices without regulating the input costs cannot be ruled out. However, we continue to remain positive on the steel cycle.

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