

STEEL INDUSTRY MARKET SCENARIO

FLAT & LONG PRODUCT

Domestic Scenario:

POSCO to soon finalize \$us10 bln steel plant in Orissa: Korean steel giant is serious about investment in the project in Orissa. This seems to be a healthy sign for the domestic steel market and also a boom in the economy. The steel major is expected to finalize in a few months.

Bhushan Steel net up 68% to Rs 37cr: The bottom line growth was led by top line growth. Revenues rose 77 per cent to Rs 798 crore from Rs 451 crore in the year-ago period. Firm steel prices and strong demand has led to strong results for the company, which is the third largest producer of cold-rolled steel after SAIL and Tata Steel.

ESSAR Steel restructures: Essar's flat products have found high acceptability abroad, especially in the west and the growing markets of Southeast Asia and West Asia. It's plant at Hazira is a port-based, fully integrated one. The steel complex has downstream facilities for highly customized products through its service centre, which has the capacity to process 1 mtpa of hot rolled coils. Through strategic divestments, Essar Steel also proposes to strengthen its balance sheet.

Ispat Industries expands: Ispat Industries Ltd (IIL) is a leading manufacturer in the secondary sector. Firm steel prices have had a positive impact on Ispat's performance. During H1 FY2005, Ispat reported a 65% growth in sales to Rs 29 bn. It also reported a net profit of Rs 0.32 bn during the same period, as compared to a loss of Rs 0.10 bn in the corresponding period in H1 FY2004. Regarding future plans, it proposes expansion of its HRC capacity to 3.6 million tonne and its CRC capacity to 1 million tonnes.

Fluctuating steel cost delays project completion: The fluctuating cost of steel and the difference between the Government schedule of rate and the market rate seem to be the dampener for the project. The project would require at least 300 tonnes of steel and a large quantity of concrete. To encourage more contractors to participate in the project, the civic agency had even slashed the tender purchase charges from Rs. 50,000 to Rs. 10,000.

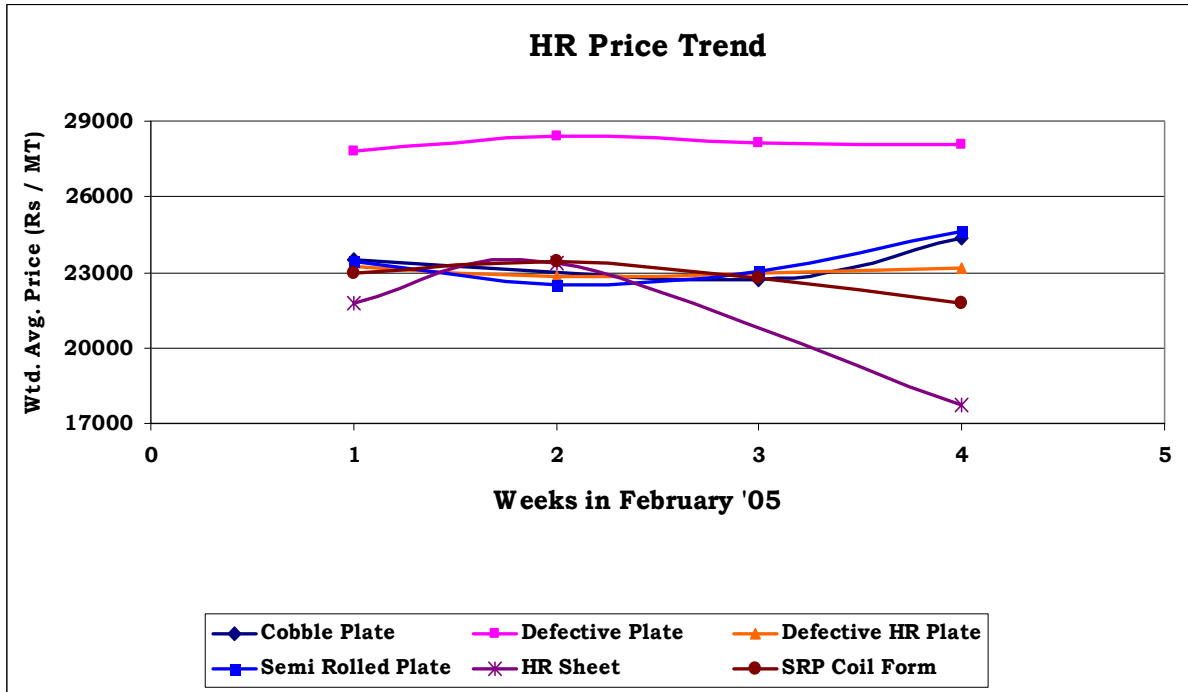
Govt. plans dedicated steel capacities for exports: After setting a target of **110 million tonnes** of steel production in the country **by 2019-20**, the Government is planning to have dedicated steel capacities for exports. While the business decision to export would always be linked to relative prices prevailing at any particular point of time, the Government would encourage dedicated export production.

Ispat Iscor to cut steel prices: The Company will reduce prices on both long and flat steel products from this month. Five percent reduction will be imposed

on long steel products, eight percent reduction on flat steel products and a four percent cut will be effective for colour-coated steel. Strong exchange rate has made it possible for the company to adjust domestic steel prices downwards.

Price Trend as observed in the Auctions held at Metal Junction for Flat Products:

Following graphs show the price trend observed in the auction services of Metal Junction for the month of February 2005 for different HR and CR products.



Cobble Plate: The product initially showed a decreasing trend and finally ended with an increasing note of around Rs.24,360/MT.

Defective Plate: The product showed a rising trend throughout the month and reached a scale above Rs.28,000/MT.

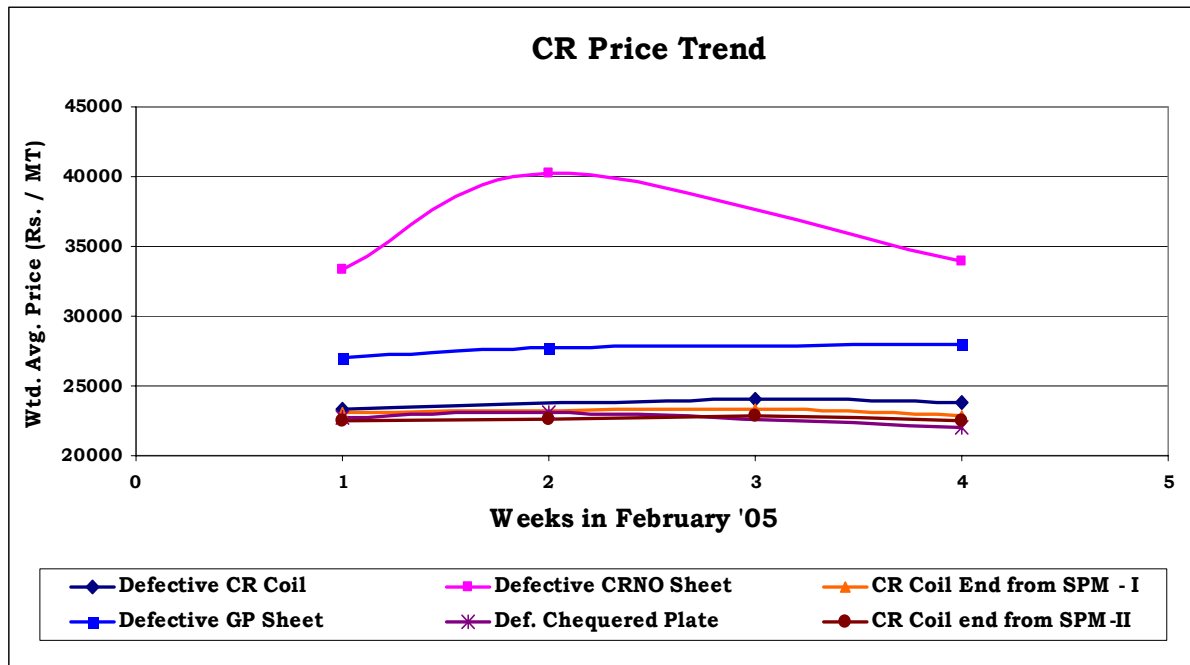
Defective HR Plate: The product showed a steady price trend throughout the month similar to the previous month.

Semi Rolled Plate: The product initially showed a decreasing trend and finally ended with a rising note in the fourth week and stabled around Rs.24,600/MT.

HR Sheet: The product initially showed a rising phenomena but ultimately ended with a massive fall in price to end at around Rs.17,750/MT.

SRP Coil Form: The product initially showed a rising trend and finally ended with a lower note similar to that of earlier month.

Outlook:The market was a mix of rising and decreasing price trend for most of the products.HR Sheet had a major influence in the market and ended at a very lower price range as compared to the last month. The main reason for such low price sentiment could be the affect of Union Budget.Since; **excise duty** has increased by 4 %, it is expected that if the manufacturer decides to lessen the price then the market will remain stable. However, if the manufacturer maintains the same price, then of course the market will show a upward trend in price. So, both the options remain open for the coming month.



Defective CR Coil: The price of this product showed a steady trend throughout the month with no major depression in price.

Defective CRNO Sheet: The product showed a massive rise in price in the second week and finally lowered down considerably in the last week.

CR Coil End from SPM-I: The product showed a steady price trend throughout the month and ended with a slight note of decreasing phenomenon.

Defective GP Sheet: The product showed a steady price trend throughout the month.

Def.Chequered Plate: The price of this product also showed a stable phenomenon throughout the month.

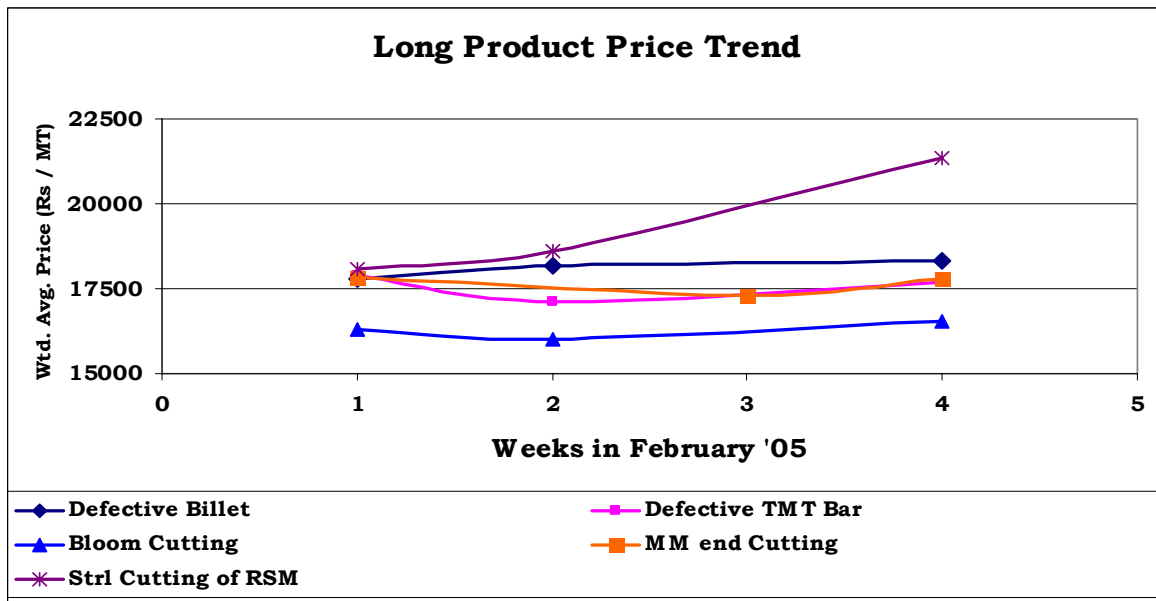
CR Coil End from SPM-II: The price of this product showed a stable trend throughout the month.

Outlook:The market showed a stable trend for most of the long products except for CRNO item which had a major impact in the market. The main reason for

such type of phenomenon could be it's slow consumption in the market and it its expected that a major effect will be there from CRNO item in the coming month.

Price Trend as observed in the Auctions held at Metal Junction for Long Products:

Following graph shows the price trend observed in the auction services of Metal Junction for the month of February 2005 for different long products.



Defective Billet: The product more or less showed a steady price trend throughout the month.

Defective TMT Bar: The product showed fluctuations in price trend and ended with a decreasing note at the end of the month.

Bloom Cutting: The product showed a rising trend at the end of the month and ended with a positive note.

MM End Cutting: The product showed a bit of decreasing note in the entire month and ended with a decremental difference of Rs.25/MT.

Strl Cutting Of RSM: The product showed a high rising note in last week and ended at around Rs.21,340/MT.

Outlook:The market more or less showed a steady phenomenon for most of the long products expect for structural cutting of RSM which showed a massive rise

in price trend. As compared to last month's ending price of Rs. 18,000/MT, the product ended with a note of Rs.21,340/MT. The main reason for this could be scrap crisis in the market. It is expected that a similar or a rising phenomenon will be maintained in the post-budget era of the month but still the scenario needs to be noticed.

International Scenario

Confident steel makers stoking up production: Encouraged by a strong steel market last year, **steel majors** across the globe including **SA's Ispat Iscor** and **Highveld Steel & Vanadium**, are ratcheting up production capacity despite the threat that this may lead to a crisis in the steel market. **Market watcher World Steel Dynamics** estimates that **global supply will exceed demand** by about **10-million tons by 2007**. A serious imbalance between supply and demand could lead to a decline in steel prices, thus presenting a risk for those steel makers investing in new capacity. However, some sources say that even if such scarcity arises, steel prices are unlikely to crash because of the gains made last year in prices of input materials such as **coke**.

High steel prices not great for all: BlueScope Steel's interim profit is expected to surge more than 50 per cent due to increase in world steel prices by \$US600 a tonne for hot rolled coil but it's not good news for the steel sector. While BlueScope and scrap merchant Sims Group will report boom results, those of Australia's other two steel makers Smorgon and OneSteel will be muted as they tend to suffer from increased costs. "Everybody wants steel and it's a cash cow at the moment," said Tony Farnham, an analyst at Aegis Equities Research.

Turnaround in world steel markets set to continue: The dramatic turn around in world steel markets is set to continue in the new year and into 2006, with rising consumption and higher price and profits triggering capacity expansion of output. Current year's outlook remains good for steel demand to grow by not less than 5 %. **China**, already the largest producer of steel close to 300 million tonnes, is doing very good in recent years in building new capacities which would total around 340 million tonnes by 2005/06, representing 30 per cent of world production. A decline in China's imports is expected and with capacity additions taking place in China and other Asian countries, the volume of trade could moderate from this year's construction of three new major plants in China.

Mauritius cos buy one-third in Ferro & Facor Alloys: The rising trend in prices of raw materials for the steel industry seems to have made some of the supplier companies suddenly attractive. Two ferro alloys manufacturers — the Rs 208-crore Ferro Alloys Corporation Limited and Facor Alloys Limited — which have been languishing in the Board for Industrial and Financial Reconstruction (BIFR) for a while have now found buyers. Following the rehabilitation scheme sanctioned by **BIFR**, the promoters were asked to bring in funds to rehabilitate these companies.

JFE Steel Agrees With Hyundai Hysco On HR Coil Price At \$600 FOB: JFE Steel Corp has reached a basic agreement with South Korea's Hyundai Hysco on a HR coil price of US\$600/ ton FOB for shipments in April 2005 in the Japanese integrated steel-maker's HR coil exports to the Korean steel re-roller for shipments in February-April 2005. This proves to be a strong scenario in the flat steel market.

Chinese HR Coils on Offer to South Korea At \$600 FOB: HR coil exports out of China are on offer to South Korea at US\$600/ton FOB for the first-quality product and at US\$550-560/ton FOB for the second-rate product on the assumption of shipments in March-April 2005, according to information made available in Tokyo.

NSC To Provide 5,000 Tons HR Coils For VSC: Nippon Steel Corp (NSC) has contracted to provide Vietnam Steel Corp (VSC) 5,000 tons of HR coils for March shipment via Marubeni Itochu Steel Inc to meet operations of VSC's CR mill project. VSC is on track to bring its CR mill project on stream with two reversing mills in the year 2005. Also, there are plans to import necessary HR coils from Japan and Taiwan.

Asian price-rise help steady the global ship: Demand in Asia has been strong for both coil and long products in the beginning of the New Year and prices have also increased on a weekly basis. In the Middle-East and India, demand is following the Asian situation and buyers are paying slightly increased prices since the New Year. The key trading suppliers such as Russia and Ukraine are enjoying good demand and are rebuilding their price levels after decline in the last year.

USA: Most long product producers in USA have maintained effective steel prices with demand remaining steady.

Russia and Ukraine: Domestic demand for long products in Russia and Ukraine has shown a steady growth with a boom in construction sector. Turkey too is expecting resurgence in domestic demand.

Overall Scenario

Good opportunity for Indian steel sector with steel sails to Australia, Japan: With Australian steel major BlueScope Steel still struggling to recover from industrial disputes, steel consuming giant Australia has emerged as an important importer from Indian mills. Uttam Galva Steels, one of the largest producers of galvanized steel in India, expects to double exports to Australia in next financial. Japan, known as a major steel exporter and manufacturer, may also start buying value-added steel from India. Thus, with India entering the Australian steel market, the scenario further proves to be healthy one for the Indian steel sector.

Global Steel outlook is promising: With a narrowing of **HRC** price differential between US and rest of the world, it is very much likely that US prices will rise in order to attract the required imports. Further, many Asian and European steel mills have shown indications to further increase HRC prices in the year 2005. Overall scenario proves to be strong enough with further expansion coming up in various places.

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STEEL INDUSTRY MARKET SCENARIO

SCRAP

Domestic Scenario

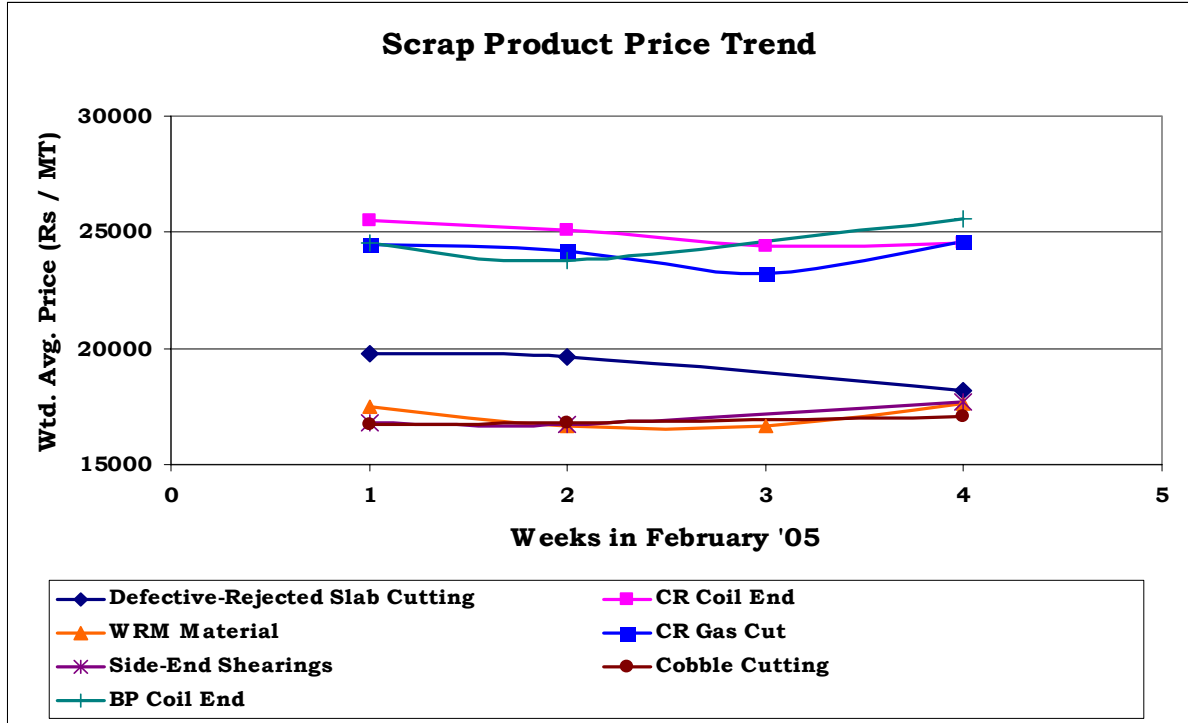
SEIL plans Rs. 300-cr sponge iron plant in AP: The Vizag-based Steel Exchange India Ltd (SEIL), engaged in steel manufacture and trading, has plans to set up a Rs. 300-crore sponge iron plant in Andhra Pradesh, as part of its backward integration programme. SEIL has also been facing some problems regarding supply of scrap from domestic sources. Also, as prices of domestic scrap are higher than imported scrap, the company has decided to set up a joint venture entity with a Mauritius company for supply of this raw material.

JNPT lifts ban on metal scrap containers: Jawaharlal Nehru Port Trust (JNPT) has revoked the temporary suspension of handling of import containers carrying iron and steel scrap at the port and its private terminal Nhava Sheva International Container Terminal (NSICT) following easing of congestion. JNPT, which handles over 58 per cent of the country's container traffic, had suspended handling of import containers of metal scrap in November, 2004, in the wake of severe congestion.

Police seize up to 100 live missiles from Uttaranchal steel yard: Police seized over 100 live missiles in a series of raids at a steel factory in Kashipur. This is one of the biggest such seizures since live missiles mistaken as scrap ripped through a steel plant on the outskirts of New Delhi killing 10 people in September last year. Police have cracked down on steel factories across the country since the scrap explosion in September. India has banned scrap imports from war zones in the wake of the accidental blast and would allow scrap imports in shredded form only.

Price Trend as observed in the Auctions held at Metal Junction:

Following graph shows the price trend observed in the auction services of Metal Junction for the month of February 2005 for different scrap products.



Defective Rejected Slab Cutting: The product initially showed a stable phenomenon and then a decreasing trend at the end of the month.

CR Coil End: The product more or less showed a steady trend in the entire month.

WRM Material: The product showed a decreasing trend for the second and third week but ultimately ended at a higher note.

CR Gas Cut: The price of this product showed fluctuations in price throughout the month.

Side-End Shearings: The product more or less showed a steady trend throughout the month.

Cobble Cutting: The product showed an increasing trend throughout the month.

BP Coil End: The product showed a decreasing phenomenon and finally ended with a rising trend in price.

Outlook: The product showed fluctuations in price trend throughout the month. There has been high demand of scrap in the market and demand supply gap has given rise to this situation. It is expected that more or less similar phenomenon will be maintained in the coming month.

International Scenario:

Japan's supply-demand outlook for scrap: There is a strong probability that Japan's domestic supply-demand conditions for **high-grade ferrous scrap** such as new production scrap will become tighter in and after April 2005 amid prospects of more purchases by integrated steelmakers. The integrated steelmakers' active purchases will lead to more usage of processed scrap as converter feed in their steel operations.

Overall Scenario:

Overall demand of scrap has increased significantly both domestically and globally. Whilst anticipated demand for 2005 for iron ore would indicate that most of this increase will be accepted, the significant change in scrap prices in USA recently may give a small amount of respite. Prices in Europe are still steady, and Asian buyers have been keeping higher stocks as they anticipate higher prices next month. Unless mills everywhere are found to have over-bought, it seems likely that these falls in USA prices will be only temporary. Thus, global scrap scenario remains more or less positive .

Increase in iron ore price weakens steel, redefines industry economics: A 71.5% rise in the price of iron ore by global iron ore majors like CVRD and Rio Tinto, at a time when the strength of the steel market remains uncertain with many experts forecasting a possible fall in steel prices in the second quarter, is redefining the economics of the steel makers globally. With both iron ore and coking coal prices up sharply, the scrap prices can be expected to rise. The pricing power of scrap will be strengthened further by the expected rise on the costs of production and prices of DRI.

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STEEL INDUSTRY MARKET SCENARIO

STAINLESS STEEL

Domestic Scenario:

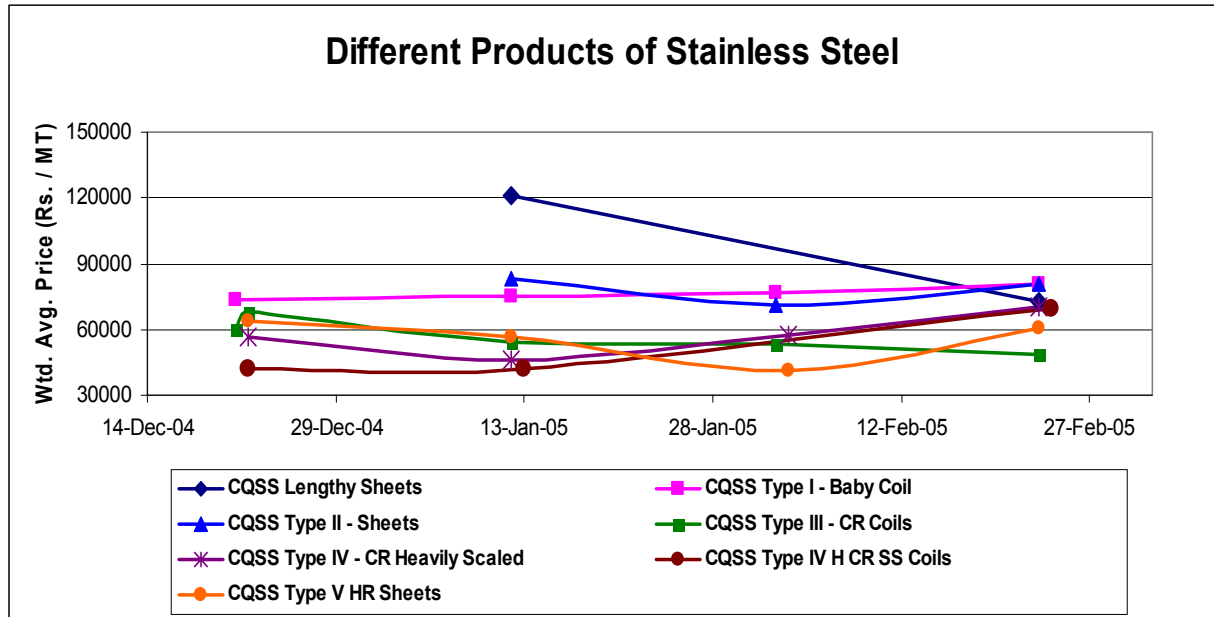
Jindal scouts for coalmines in SE Asia, Orissa: Jindal Stainless Ltd is eyeing coal mines in India and South East Asia to provide raw material for its thermal power and ferro-chrome plants in Orissa. The company is scouting for coal mines in South-East Asia and areas in and around Orissa for meeting the energy requirements of its 250 mw captive power plant alongside the upcoming Duburi stainless steel unit.

Jindal Stainless: in growth orbit: Jindal Stainless' acquisition of Indonesia-based PT Maspion Stainless Steel is aimed at improving operational efficiency of its parent as well as expanding its marketing foot print in the key East Asian market. The Indonesian operations currently comprise a 50,000 tonne stainless steel cold rolling mill which is expected to be ramped up to a lakh tonne annually shortly.

Stainless steel output set to cross 2 mt mark: Stainless steel production in the country is all set to cross the 2 million mark in few years following the encouraging trend of stainless steel usage in the construction and transportation sectors. Citing usage of stainless steel in certain sectors, Delhi metro rail project will initially have 240 coaches made of stainless steel. Moreover, with the commonwealth games slated in Delhi during 2010, the city will witness steel furniture, trash bins and bus shelters shining in stainless steel.

Price Trend as observed in the Auctions held at Metal Junction:

Following graph shows the price trend observed in the auction services of Metal Junction for the month of December to February for different stainless steel items.



CQSS Lengthy Sheets: The product showed a decreasing trend in the one and a half month long duration.

CQSS Type I-SS Coil-Baby Coil: The price of this product showed a steady trend from the month of December to February.

CQSS Type II-Sheets: The price of this product showed fluctuations in price trend in the entire month.

CQSS Type III-CR Coils: The price of this product showed a decreasing trend throughout the month.

CQSS Type IV-CR Heavily Scaled SS: The product initially showed a decreasing trend and finally ended with a higher note at the end of February.

CQSS Type IV H CR SS Coils: The product initially showed a bit of decreasing phenomenon and finally ended at around Rs.69,170/MT in the end of February.

CQSS Type V HR SS Sheets: The price of this product showed a decreasing trend and finally showed a massive rise in price at the end of the month.

Outlook: The stainless steel items showed a mixed phenomenon of both rising and decreasing pattern and the mixed effect could be due to good demand of stainless steel in the market.

International Scenario:

China forecasted to be a significant exporter of stainless steel: Preliminary trade figures show that China is a substantial force in the international market. Total exports of stainless steel have soared in the year 2004 as compared to 2003. About half of these stainless exports were flat rolled products. They exceeded 190,000 tons in 2004, a near-sevenfold jump on the previous year's figure of 27,813 tons. China's stainless producers also exported about 90,000 tons of non-flat products and more than 100,000 tons of tubes and pipes. Europe is among the markets being targeted.

Steel in favour: An increased profit outlook from stainless steel maker Nippon Metal Industry Co. helped encourage buying in the steel sector, whose sub index rose 1.51 percent. Nippon Metal added 1.5 percent to 203 yen and industry leader Nippon Steel Corp. rose 2.3 percent to 268 yen.

Price of Ni-Based Stainless Scrap for March May Be Risen By More than Yen 10,000 / Ton in Japan: In view of a steep rise of LME nickel price seen from the second half of February, it seems to be inevitable to rise considerably the price of nickel-based stainless steel scrap to be purchased by stainless steel mills of Japan for March delivery from domestic sources. Stainless steel mills have intended to increase their production and this aspect is stimulating the market of stainless steel scrap.

World Stainless Steel Scenario:

World stainless steel production reached 5.9 million metric tonnes (mmt) in the third quarter of 2004, according to the International Stainless Steel Forum (ISSF). This is a rise of 9.3% compared to the same period of 2003.

Strong growth was seen in Europe, more than compensating for the lower-than-expected growth in the first quarter of 2004. YTD production for the Western Europe/Africa region stands at 7.1 mmt, 4.6% more than in the same period of 2003

Total production for the first nine months of 2004 has risen to 18.2 mmt, a rise of 7.3% compared with the first three quarters of 2003.

Stainless steel production in Asia was again strong with YTD production of 8.7 mmt. This is almost 11% higher than for the same period of 2003.

Stainless steel production in The Americas stands at 2.2 mmt. This is a rise of 4.6% YTD. YTD production in Eastern Europe has fallen by 4.7% compared to the first nine months of 2003.

Table 1: Q3 Stainless and heat-resisting crude steel production (in '000 metric tonne)

Region	Third quarter		
	2003	2004	+/- %
Western Europe/Africa	1,945	2,160	11.1
Central and Eastern Europe	67	63	-6.0
The Americas	681	686	0.7
Asia	2,722	3,006	10.4
Total World	5,415	5,915	9.3

Table 2: Stainless and heat-resisting crude steel production (in '000 metric tonne)

Full Year	First nine months			+/- %		
	2002	2003	+/- %	2003	2004	YoY
Western Europe/Africa	8,628	9,055	4.9	6,766	7,074	4.6
Central and Eastern Europe	252	277	9.9	211	201	-4.7
The Americas	2,734	2,831	3.5	2,091	2,179	4.2
Asia	9,049	10,645	17.6	7,887	8,741	10.8
Total World	20,663	22,808	10.4	16,955	18,195	7.3

ISSF maintains its forecast that global stainless steel production will grow by 6.8% to 24.4 mmt in 2004.

Overall Scenario:

The overall scenario for stainless steel seems to be healthy with demand increasing both in domestic and international forum. With **Jindal** in an expansion mode, the condition is quite healthy in the domestic

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market. Moreover; there is a booming scenario in China with export of stainless steel having soared up significantly.

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