

STEEL INDUSTRY MARKET SCENARIO

FLAT & LONG PRODUCT

Domestic Scenario:

Ramsarup group plans Rs.476 cr steel unit at Kharagpur: The rising demand for steel billets has led the Kolkata based Rs.1115 crore Ramsarup group to put up a Rs. 476 cr integrated steel plant to produce about 2,91,000 tones per annum of billets at Kharagpur in West Bengal along with a captive power plant as a backward integration project. The expansion phase clearly indicates the booming scenario of long products in the steel market.

Demand for steel to rise by 6.2% in 2005: Demand for finished steel products in 2005 is expected to grow by 6.2 per cent and 6.40 per cent in 2006. According to a recent forecast by the International Iron and Steel Institute (IISI), the total demand in India may be 34.3 million tonnes in 2005 and 36.5 million tonnes in 2006.

Essar plans Rs. 10721 cr Paradip steel plant, Tube Investments signs up for Rs. 3480 cr Duburi steel plant: The Orissa government signed two memoranda of understanding (MoUs) with Essar group and Tube Investments of India for setting up of two separate steel plants with combined investment of Rs 14, 201 crore. Of these, the **Essar group** proposes to set up a four million tonne steel plant at Paradip at an estimated investment of Rs 10,721 crore. The steel plant will mostly produce **long products and billets**. The other plant is proposed by **Tube Investment of India Ltd** of Chennai based Murugappa group. The final product of the steel plant will be **pig iron and HR coils**.

Tata Metaliks to diversify: The leading producer of pig iron in the country is in the diversification process of steel making and is going to make long products. The company plans to source sponge iron and mix it with liquid iron produced by it to manufacture **long products like billets**.

Steel Prices drop steadily in April: Steel Prices (spot) have been observed to be dropping in April. The price did a nose dive to end the rally at 23800 Rs./MT at Mandi Govindgarh from the initial start of 24260 Rs./Ton.

Rise in cost of inputs like steel, VAT implementation spur move Maruti, Bajaj set to hike prices: Maruti prices are set to rise following a hike in steel prices and implementation of value added tax (VAT). Bajaj Auto too would raise prices of its two- and three-wheelers by 1-2% on account of higher costs of inputs like steel. The hike would be between Rs. 350-500 in terms of value.

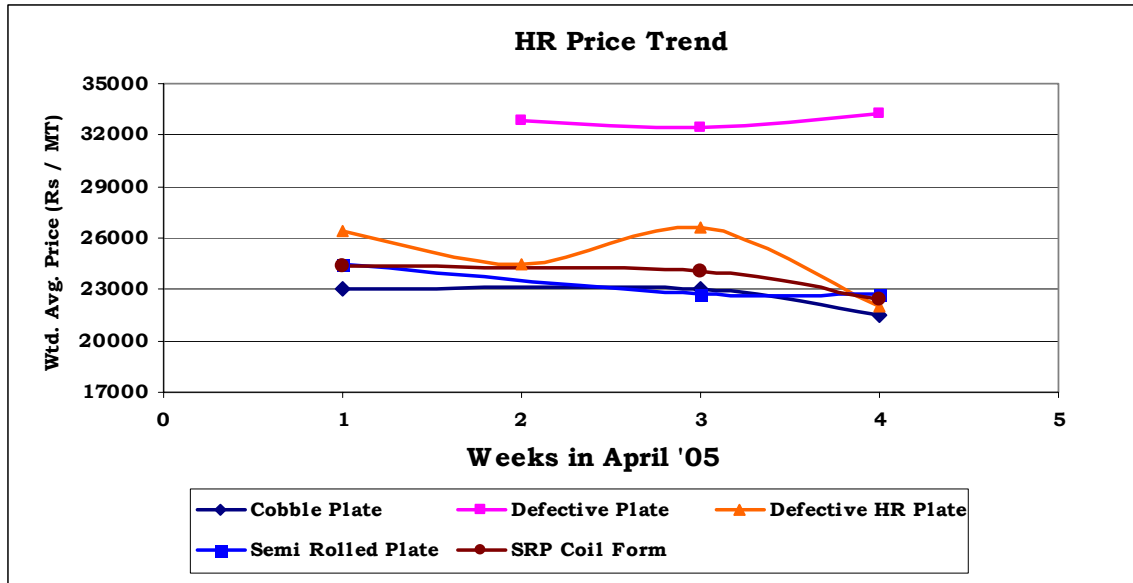
Punjab steel feels VAT effect: The steel industry of Punjab has been hit hard-by the imposition of the value-added tax (VAT) from April 1. The steel industry in

Punjab will suffer. Steel scrap comes to Punjab from other states. VAT would increase the steel price by Rs 960 a tonne, curling the consumer in the process.

Essar Global to set up steel plant in Qatar: The Ruia-controlled Essar Global Limited (EGL) will set up a steel plant in Qatar in collaboration with Qatar Steel Company (Qasco). The plant is expected to become operational in the first half of 2008 and will be completed in phases. Qatar is emerging as a prominent player on the international steel map.

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 April for different HR and CR products.



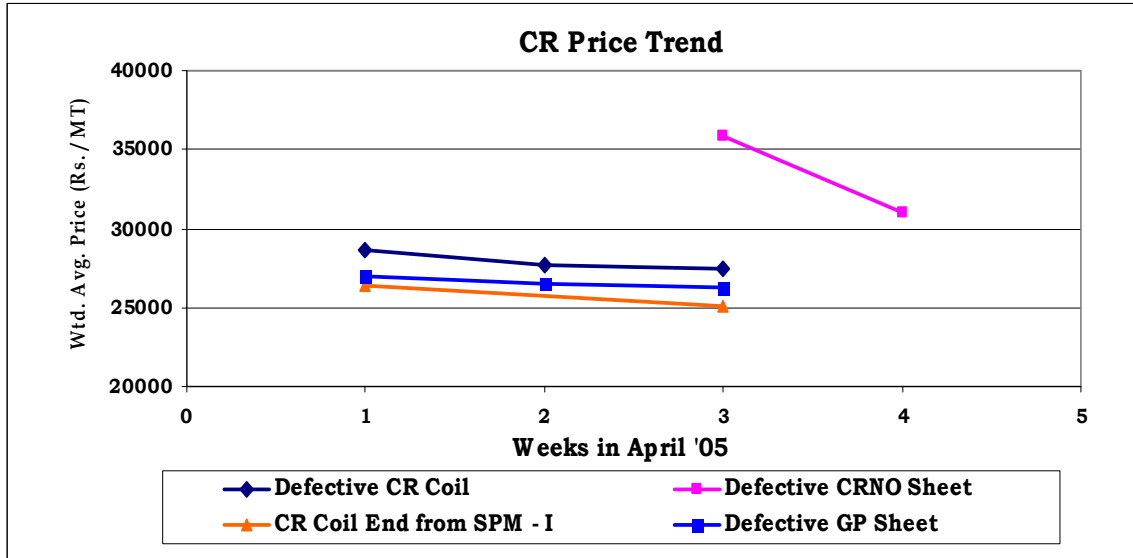
Cobble Plate: The product showed a decreasing trend at the end of the month.

Defective Plate: The product had more or less a steady price trend and ended at around Rs.33,230/MT.

Defective HR Plate: This product showed fluctuations in price in the range of +/- 1500 Rs PMT in the entire month. The price showed a downward trend at the end of the month.

Semi Rolled Plate: The product showed a decreasing price trend in the market.

SRP Coil Form: This product too showed a decreasing price phenomenon in the market.



Defective CR Coil: The product showed a diminishing phenomenon in the market.

Defective CRNO Sheet: This product too showed a falling trend in the third and fourth week.

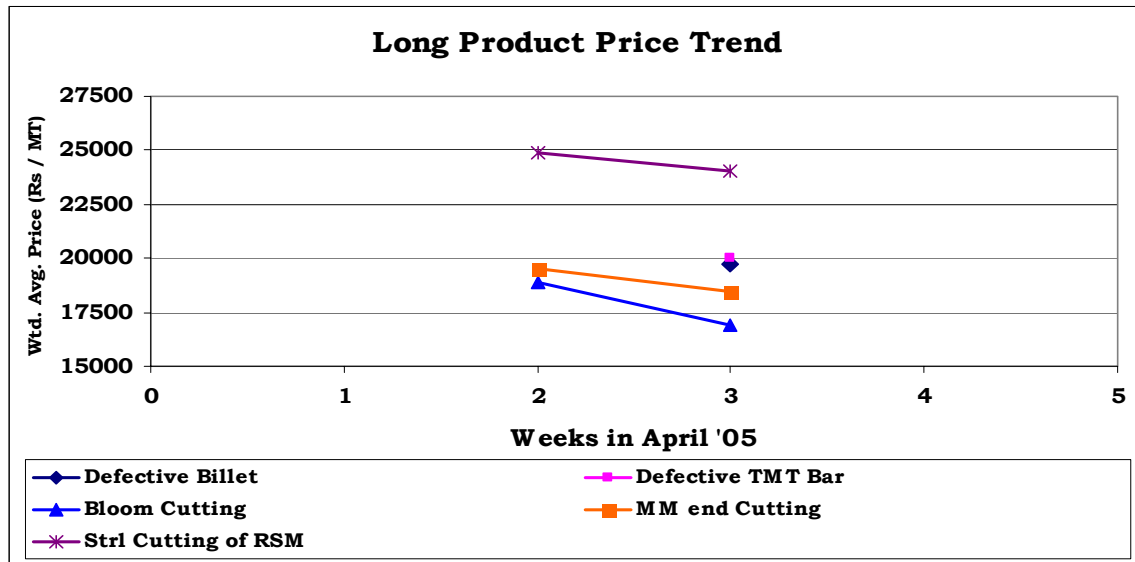
CR Coil End from SPM-I: This product also showed a decreasing price trend in the market.

Defective GP Sheet: The product showed a decreasing trend in the market.

Outlook: All the HR and CR items showed a diminishing trend in the market with market sentiment getting a setback. Sluggish Industrial Production leading to weakening of demand in the first quarter of the new financial year is believed to be the main reason for this dip in price. All the traders could not liquidate their stock and hence the pressure is felt on the price. Wait and watch scenario for VAT implementation also has an adverse effect on the price. Similar downward trend may be expected in the coming month also, till VAT implementation effects are clear.

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 April for different long products.



Defective Billet: The product had auction in the third week of the month and touched at around Rs.20,000/MT.

Defective TMT Bar: The product too had auction in the third week of the month and stabled around Rs.20,000/MT.

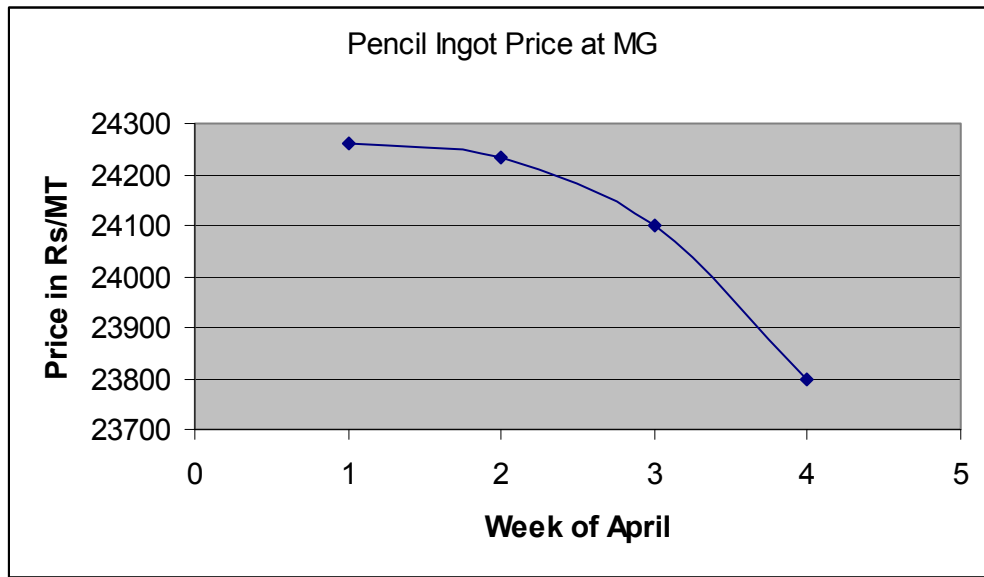
Bloom Cutting: The product showed a decreasing trend in the entire month.

MM End Cutting: This product too showed a diminishing trend throughout the month.

Strl. Cutting Of RSM: The product showed a fall in price trend throughout the month.

Outlook: The long products showed a diminishing price trend in the month of April. Sluggish Industrial Production leading to weakening of demand in the first quarter of the new financial year is believed to be the main reason for this dip in price. VAT has also its effect as the bidders took a wait and watch stand. Moreover the Ingot price got a huge dip which made the situation more complex. Similar downward trend may be expected in the coming month also, till VAT implementation effects are clear.

Pencil Ingot Price Trend for the month of April (in Mandi Gobindgarh market):



Ingot price range in the Mandi Gobindgarh market did a nose dive in this month creating slump in price.

International Scenario

China to produce 350 million tons of steel in 2005: China will produce 350 million tons of steel this year and the country's consumption of steel is expected to see steady, not rapid growth. It's predicted that domestic steel consumption would reach 343.83 million tons this year; an increase of 31.53 million tons over 2004. Price of steel would remain high this year due to sustained global economic development and short supply.

Prices of Steel Inputs near record highs: Prices of minor metals used in steel making are near record highs, but global producers are unlikely to suffer as they pass the costs along to consumers. In Russia, the world's second biggest steel-producer, the industry has become vertically integrated to focus on production of raw materials, coal and other upstream assets as well as steel.

Steel prices down in Pakistan as supply goes up: Steel products prices decreased by almost 15 percent to 20 percent in a month on lack of buying activity. Market players said enhanced supply from **Pakistan Steel Mills** coupled with lower buying activity across the country due to beginning of wheat harvest season has cut most of the steel products prices. This has led to fall in **iron bars prices** in retail market from Rs. 48,000 per tonne to Rs 40,000 and similarly prices of **galvanized products** have gone down from Rs 1,500 to Rs 1,300 per tonne.

Global steel rates set to lose shine: World Steel Dynamics (WSD), the leading global steel information service, has predicted a \$100 softening in steel prices by the third quarter of this year. Hot-rolled coil prices have come down significantly. Steel is not moving in the US. China too, experienced \$10-15 a tonne reduction. European steel makers like Arcelor and Thyssenkrupp have announced cuts in production.

China's steel capacity to fall in 2006: JP Morgan: China's steel output would probably fall next year, boosting global steel prices, as the government shuts smaller mills and raw materials become more expensive. Growth in new Chinese steel making capacity might slow in a period of 12 to 18 months. The market is a bit spooked by the rate of capacity increase in China. China's output of steel products may rise 16%, or 48 million tonne, to 345.3 million tonne this year.

Overall Scenario:

The Price Trend in Secondary Steel Market in India showed a dip due to two main reasons. One is, no incentive in industrial growth for the first quarter hence the liquidation of already available stock did not happen. The other is unsure condition of implementation of VAT on steel market. The situation got complex with a fall in Ingot price in Mandi Govindgarh.

Steel prices saw a dip throughout World. In China flat price have remained somewhat stable than elsewhere and have not lost as much ground as long products have. The country has turned a net exporter of steel and they have been exporting a lot of flat products too from their new mills even to competitive markets in Japan. In international market the price had slumped but as China is showing stability somewhat better than the others, it might so happen that in short run the international market will be steady.

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STEEL INDUSTRY MARKET SCENARIO

SCRAP

Domestic Scenario

Kudremukh set to suffer 25% drop in output: Kudremukh Iron Ore Company (KIOCL), a key exporter of iron ore to major steel producing countries like China and Japan, is set to suffer a drop of around 25% in production this year, stunted by uncertainty in continuing mining operations at Kudremukh.

China knocks on the doors of ore-rich states: Chinese steel makers are negotiating directly with states rich in iron ore like Orissa, Jharkhand and Karnataka to source raw material for their plants at home. The group is looking for a long-term contract for at least 12 million tonnes of iron ore. However, it remains to be seen if any more iron ore is allowed to be exported to China. The Chinese delegation is looking at both the options, importing iron ore from India as well as setting up plants here. So, it seems the plan is going to give a boost to the Indo-China trade.

Projected Pig Iron Demand-Supply Scenario:

Region	Demand (1000 TPA)
North	800
South	360
East	420
West	580
Total Demand	2160
Expected Availability	2785
Net Surplus	625

From the above table, it is seen that supply will outweigh demand and the domestic production scenario of pig iron will be quite healthy in the coming months.

Existing Manufacturers of Pig Iron in India: Kalinga, IISCO, Tata Metaliks, NINL, Kajaria, Sesa, Usha Ispat, Aparant, Kirloskar, Sathavahana, Lanco, Kudremukh, Jaysawal Neco, SAIL.

Availability of Foundry grade Pig Iron (million tonnes)

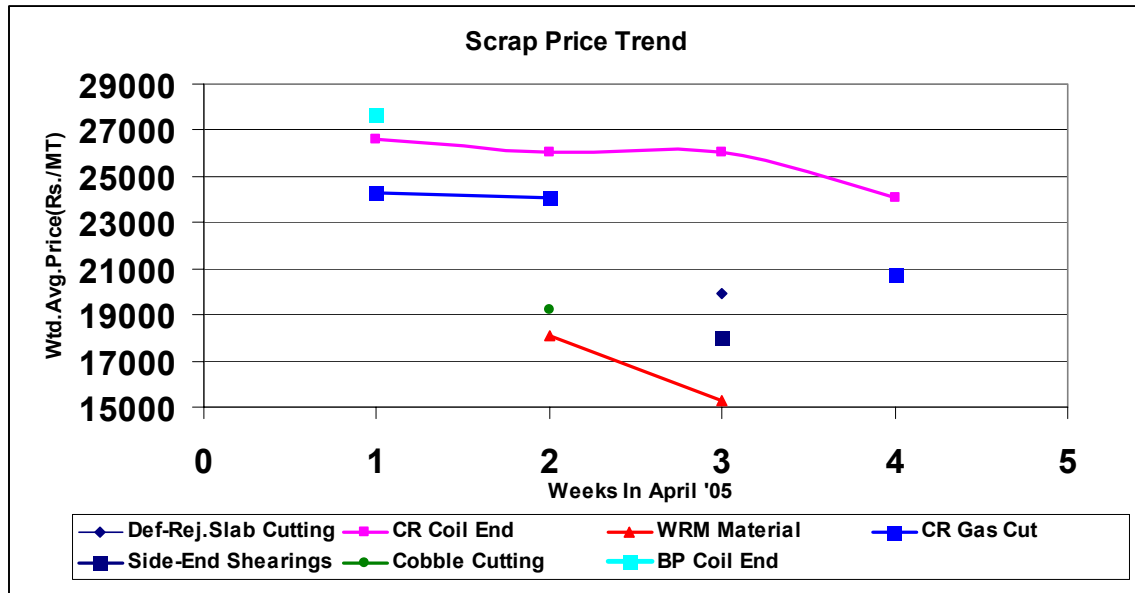
	2004-05	2005-06
Existing Producers	1.9	2.00
New Producers	0.15	1.00
Total	2.15	3.00

The above table shows the new producers of Pig iron that will emerge in the coming year.

As the export is not peaked up the domestic price is under pressure.

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 April 2005 for different scrap products.



CR Coil End: The product showed a declining price trend in the entire month.

WRM Material: The product showed a fall in price from the second week to third week.

CR Gas Cut: The product initially showed a steady trend and then a major drop in price in the fourth week.

BP Coil End: The product had auction only in the first week.

Cobble Cutting: The product touched around Rs.19,000/MT in the second week.

Defective-Rejected Slab Cutting: This product too had auction only once in the entire month.

Side-End Shearings: The product had auction in the third week and touched at around Rs.18,000/MT.

Outlook: The trend clearly shows that the scrap items had a major fall in price. Demand supply pressure and non-clarity of implication of VAT had affected the same.

International Scenario:

Steel Recycling Hits 25-Year High in the United States: The Steel Recycling Institute (SRI) announced that the recycling rate for the world's and America's most recycled material -- **steel** -- remained at 70.7 percent in 2004. However, total tons of steel recycled increased by over 7.2 million tons. This dramatic increase, driven by an expanding market for steel, continues to position steel as the leader when it comes to recycling. As the steel industry has become a more efficient user of raw materials, it has increased the demand for post-consumer scrap, and the **scrap industry** continues to deliver end-of-life steel-dominated products back to the steel mills to be reborn into new products. The industry is now one of the largest consumers of recycled materials in the world. SRI reported that the recycling infrastructure throughout the United States benefited dramatically from the increased demand for "The New Steel", as a result of this demand, the steel industry continues to require **steel scrap**, and the scrap industry continues to provide this vital ingredient to making steel.

Increase in procurement of scrap iron: Nippon Steel of Japan is soon going to increase procurement of scrap iron and JFE steel has also considered increasing procurement of high-grade scrap iron to facilitate its production expansion project. Such move launched by **Japanese steel manufacturers** would widen the price gap between high-grade and common scrap iron, triggering price hikes for steel round bars. Price hike in scrap iron will force steel makers to raise their selling prices of their products, including steel round bars and H-beam steel.

Overall Scenario:

While supply outweighs demand in the domestic scrap scenario, the international market scenario seems to be quite healthy with countries like Japan increasing procurement of scrap iron and demand booming.

It is forecasted that **MS scrap prices** are going to decline globally. According to International Maritime Organization (IMO) ruling it has been made mandatory for shipping firms to junk by April 5 all the tankers that have been built before 1977. This will have an immediate effect on various countries like India, Bangladesh, China, and Pakistan as they have the biggest ship breaking yards in the world and do not have enough space for breaking around 100 ships. Another probable effect is that **freight rates will go up** marginally across the globe because of sudden reduction in capacity. Also, re-rolling steel market may be hit as prices will fall because of the glut in scrap.

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STEEL INDUSTRY MARKET SCENARIO

STAINLESS STEEL

Domestic Scenario:

Salem Steel registers growth: Salem Steel Plant (SSP) has accrued a net profit of Rs. 2.70 crores up to the third quarter of the last fiscal. The trend is likely to continue in the fourth quarter also. Despite various setbacks faced by the plant, it was able to register a significant growth. **Projection for 2005-06:** The plant aimed to achieve a production of 2.31 lakh tonnes (stainless steel: 1.31 lakh tonnes, carbon steel: 80,000 tonnes and hire rolling: 20,000 tonnes) for 2005-06 against the 2004-05 total production of 1.83 lakh tonnes.

Jindal Stainless acquires Maspion Stainless Steel Indonesia: Jindal Stainless Ltd has signed a sale purchase agreement to acquire a running 50,000 TPA capacity stainless steel CR plant in Indonesia from PT. Maspion Stainless Steel Indonesia on asset acquisition basis. Jindal Stainless will supply HR coils to Maspion Stainless for conversion to CR coils / sheets in various finishes for sale in Indonesia, other South East Asian countries and Australia.

Import duty on stainless steel cut: The metallurgical industry, particularly steel, has received a boost through duty rate adjustments in the Budget. The import duties on stainless steel, alloy steel and other ferro-alloys have been reduced from the existing 15 per cent to 10 per cent.

International Scenario:

China will ramp up two new stainless steel mills in 2005-06, possibly slowing exports from Japan. This infact proves to be a healthy scenario in the stainless steel market. Demand for stainless steel from China is likely to remain strong over the next one or two years. **Strong nickel and stainless steel demand in China,** will continue **for the rest of 2005** and market conditions will remain tight given the continued shortfall in supply relative to demand.

According to industry analysts average nickel demand growth may be between 2.9% and 3.4% on a Western World and Global basis, respectively, over the period 2004-2015. This increase is expected to be lead by China, where dramatic growth has seen China's share of demand grow from a global market share of less than 4% in 1999, to an expected 11.4% by 2015. The principal drive for this is stainless steel production, predicted to rise by 52%. Nickel and chrome are prime raw materials used in stainless steel production.

Nickel deserves its stainless reputation: Presently nickel is in big demand for its use in creating corrosion and heat-resistant alloys such as stainless steel. Increased use of stainless steel and low inventories of nickel have helped fuel recent price rises. The high price is forcing customers to seek alternatives with Chinese, Japanese and European buyers all looking for nickel-free or low-nickel products. Japan accounts for about 10 per cent of global stainless steel demand. So, is this the end of nickel's boom run? The question still remains unanswered as there is still plenty of pent-up demand for the metal due to ongoing low inventories.

Overall Scenario:

There lies a strong stainless steel demand both in domestic and international market. In the domestic market, Salem Steel has registered a healthy growth and Jindal is going for fresh acquisition in the international arena. Overall market is quite healthy with demand and supply both going up.

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