INTERVIEW

"Non-availability of key raw materials is the major challenge"

Low import duty on stainless steel coupled with capacity under utilisation will definitely be detrimental to the health of the domestic steel industry. **UK Chaturvedi, CEO, Jindal Stainless,** spoke to Sumantra Das on the various issues faced by the Indian steel sector.

Jindal Stainless Limited, a part of the USD15 billion O P Jindal Group,is a producer of stainless steel flat products in austenitic, ferritic, martensitic and duplex grades. Jindal Stainless has also the taken the lead in commerciali-sation of the Cr-Mn stainless steel globally and as a result Cr-Mn 200 series has increased its globalshare from mere 5.5 % to 15% in the last decade.

What is your take on the removal of import duty on scrap?

As you may be aware, both stainless steel scrap and steel scrap are extremely vital raw materials for the domestic steel industry. While the carbon steel industry uses steel scrap, the stainless steel industry uses both the raw materials in large quantities.

On account of dearth of stainless steel scrap in the country, the bulk of the scrap requirements of the domestic stainless steel producers are met by imports from countries like Europe, Korea, South-East Asia etc. The increased usage of stainless steel scrap as a substitute for pure nickel and ferro-nickel has helped to considerably lower the raw material cost of the domestic stainless steel producers.

Moreover, recycling of stainless steel scrap also helps in the conservation of the environment as lesser natural resources are consumed during production.

However, on account of the increase in the basic custom duty on stainless steel scrap and steel scrap, the competitiveness of the domestic stainless steel industry has been badly affected as both these raw materials taken together account for over 50 per cent of the total raw material cost.

Low import duty on stainless steel (5 per cent), capacity under utilisation coupled with this will definitely be detrimental to the health of the domestic industry and the government needs to reverse its decision, it is not a question of profit, none of the stainless steel companies in India are making profit. It is now a question of the survival of the domestic stainless steel industry.

How are you looking at steel prices at this juncture?

Within the stainless steel product range there are various series of grades. Within each series there are certain grades wherein the content of various raw materials vary. The volatility of cost (and the price) depends on the contents of raw materials and on the overall market sentiments and demand/supply situation. Exchange range parity also plays an important role in this.

In the last two months price of raw materials has been steadily falling down and accordingly the prices in the market are also aligned with that. Our pricing is also related with the cost of production, however, since over all sentiments are low, market is not able to absorb the right prices hence we are adjusting the prices with the demand situation.

Do you consider any price hike? Can consumer market absorb these without affecting demand?

Price hike and price movement in stainless steel depend upon raw material price indication as a well as currency positioning in view of dependency on imports of raw materials such as nickel. In current scenario, metal prices are under pressure, moreover rupee continuously weakening, is adding to the cost of manufacturing of stainless steel. In India, market and stainless steel users understand this relationship between cost compulsion and raw material.

What are the other various issues that impacted the industry?

Various restrictions due to regulatory framework in mining sector have limited the access of domestic stainless steel industry to vital raw materials, thereby impacting its operations/profitability. Recently announced increase in basic custom duty on import of steel scrap has placed domestic stainless steel players at a huge competitive disadvantage vis-à-vis other countries like China, where import duties on all key inputs for manufacturing of stainless steel is almost nil.

Also high inflation, hardening of interest rates, high fiscal deficits, extreme volatility and the free fall of Indian Rupee have created an environment of uncertainty, as a result of which major business decisions are being deferred and the very viability of manufacturing sector is in question.

Is lack of domestic raw materials hampering business of non-integrated players?

Currently, the steel industry across the globe is passing through a difficult phase. Also, the domestic non-availability of key raw materials especially for stainless steel industry such as nickel, ferro-nickel, stainless steel scrap and mild steel scrap is one of the major challenges being faced by domestic stainless steel industry.

In India, all major stainless steel producers are manufacturing stainless steel through the Electric Arc Furnace Route (EAF) route, where primarily stainless steel scrap and mild steel scrap are used for manufacturing of stainless steel. This process manufacturing stainless steel through EAF is even followed globally. Unavailability of metal scrap in India compel producers to use other expensive imported material such as nickel and ferro-nickel making domestic industry uncompetitive when compared with producers from other geographical regions such as China, Republic of Korea etc.

Weakening Indian rupee coupled with volatility in raw material prices increases the raw material cost for domestic manufacturers besides causing uncertainty in business. The devaluation of rupee against the US dollar has led to a huge increase in the import bill of all domestic stainless steel manufacturers.

Chinese stainless steel manufacturers enjoy higher levels of protection in terms of higher import duty (10 per cent) as compared to their Indian counterparts, who have 5 per cent duty protection. Hence, overseas competitors find it easier to dump their cheap products into India. Under the circumstances, the domestic players have to necessarily absorb the increased cost or they will have to pass it on to their customers in which case, domestic players will find it difficult to sell their output in domestic market.

Imports increase the raw material prices due to addition of freight cost. Further, import duty of 2.5 per cent on pure nickel, ferro nickel, MS and SS scrap is also adding to the woes of the domestic industry. India is probably the only country in the world where both Import and export duties are levied on metal scrap. In India SS and MS scrap is subject to 2.5 per cent duty not withstanding that recycling of stainless steel scrap also helps in the conservation of the environment because of recycling factor and accordingly use of recycled materials should be promoted for conserving natural resources.

However, India does not generate sufficient metal scrap (steel and stainless) to satisfy the requirement of electric arc furnaces. The bulk of the scrap requirements are met by imports. These raw materials together accounts for around 50 per cent of total raw material cost.

Will cheaper steel imports create more pressure on domestic companies?

The stainless steel market in India has grown at a healthy pace over the last few years. The production of finished stainless steel products in 2012-13 was to the tune of 2.4 million tonne (comprising both long products like bars and rods and flat products like coils, sheets and plates).

In a short span of two decades, India has managed to become the third largest producer of stainless steel and the second largest consumer of the metal in the world. This has been possible only on account of the massive investments made by the domestic industry towards capacity expansions/modernisation. However, the very survival of this Industry is now threatened by the exponential surge in imports of cheap stainless steel flat products from various countries especially China. IT