

# Rising costs amid weak demand may force steel companies to cut output

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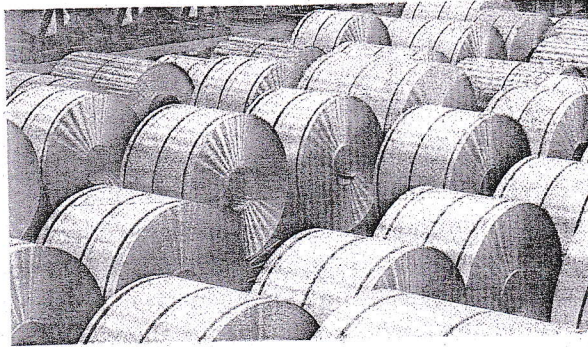
Steel companies are staring at possible production cut with the rising inventory amid slowing demand, rising cost of production and increase in cheap imports from China and Korea. The increased imports comes amid fall in domestic demand from the automobile and white goods sectors.

In first four months of this fiscal, finished steel imports into India was at 2.69 million tonne (mt) compared with 1.57 mt of exports, resulting in a trade deficit of 1.1 mt. In July, steel exports declined 14 per cent sequentially to 0.30 million tonnes while imports increased 18 per cent to 0.75 mt.

"Imports into India continued at a brisk pace last month as global steel prices remained depressed due to weak demand," said a steel company official. "Using the free trade agreement, Japan and Korea are trying to book orders for slabs and blooms (semi-steel) affecting Indian steel industry adversely," he added.

## SHARP FALL IN PRICES

The landed cost of steel imports in the first week of last month was at ₹48,358 (\$579) per tonne from China and ₹49,265 (\$590) per tonne from Japan. In con-



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trast, domestic steel prices were quoted at premium ₹51,050 a tonne.

Interestingly, it is not just the steel companies but the traders who import steel and sell in the domestic market were also caught on the wrong foot. The sharp fall in prices have eroded the profit margins of traders as the prices have fallen before the shipments could arrive from China in 45-60 after booking, sources said.

Aamir Makda, Commodity and Currency Analyst, Choice Broking said steel prices have been on a downward trend for four consecutive months and it fell three per cent last month. The current spot market prices are at about ₹41,700 a tonne due to increase in steel imports. India's steel production increased by 6.8 per cent to 12.3 mt in July even while imports rose sharply so far

this fiscal, he added. The cheap imports has put pressure on Indian steel companies ability to pass on rising cost. The steel industry is already reeling under cheap imports even while the cost of production has gone up with additional levy imposed by few mineral rich states after the recent Supreme Court verdict.

## EXPORT SHRINK

Steel companies are facing big challenge on the export front as most of the major importing countries such as Malaysia, Turkey and Vietnam initiating investigation into imports from India. While it will take time for these countries to finish the investigation and levy trade barriers, buyers will start cutting down their imports from India on fear of facing their government wrath, said trade sources.