

Metals 2004 Second Annual International Conference in Kolkata

The Global Steel Context and India's Position

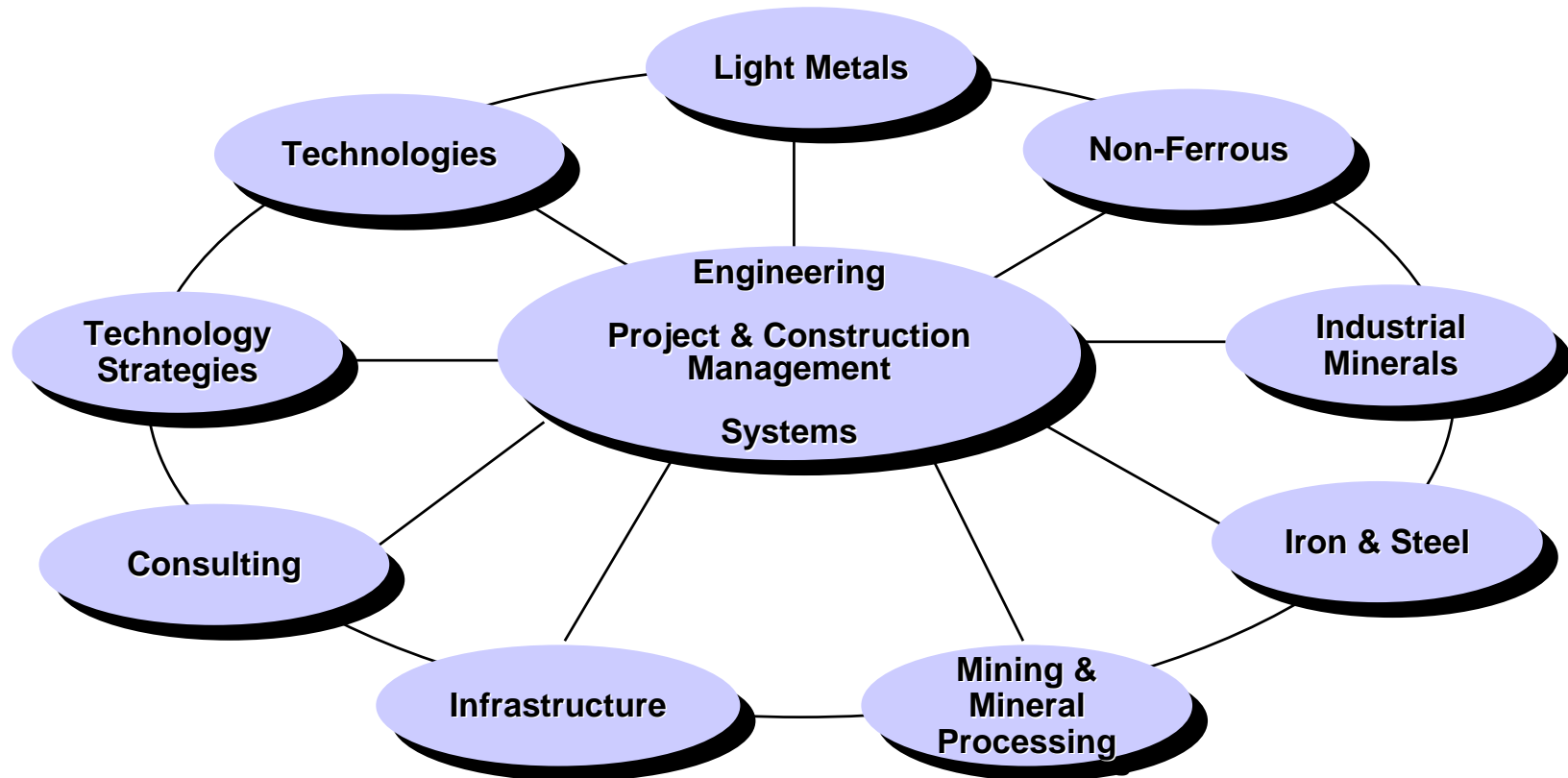
4th November 2004



Rod Beddows, Director
Hatch Associates - London

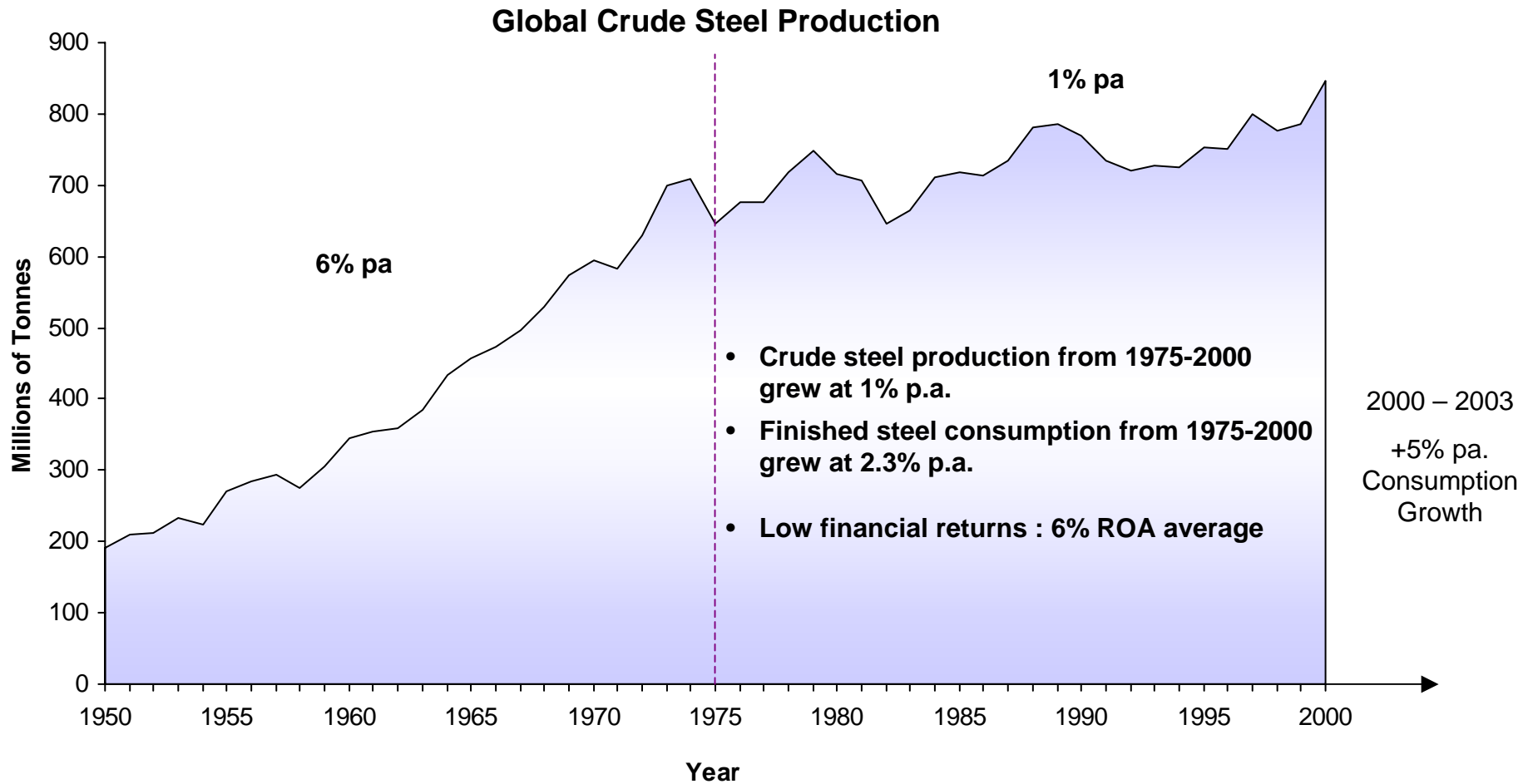
Hatch Beddows

The world's leading mining and metals consultancy



- **Founded in 1955, employee owned**
- **Group includes Acres, HB Advisers**
- **Projects in 80 countries**
- **5,800 employees**
- **80 offices including Mumbai & Chennai**
- **JVs Mott MacDonald, Connell Wagner**

Global steel production grew at 6% per annum from 1950 to 1974, then slowed to 1% per annum from 1975-2000



Source: IISI, Hatch Beddows analysis

Economic conditions and responses

Conditions	Corporate Response
Slow Demand Growth	Rationalization
“Overcapacity”	Restructuring
Cost Price Squeeze	National Consolidation
State Interference	
Nationalization	

Are we at a turning point in the steel industry?

- Are the fundamentals of the steel industry changing?
 - Stronger growth in demand?
 - Structural change in supply?
 - Consolidation in ownership?
- Is the steel industry entering a new era marked by:
 - Improved growth prospects?
 - Higher, more stable returns?

As China and India industrialise the current and forecast requirement for steel is growing and likely to continue to grow at a faster rate than before

A likely Scenario:

Steel Requirement (M tonnes Finished Steel)

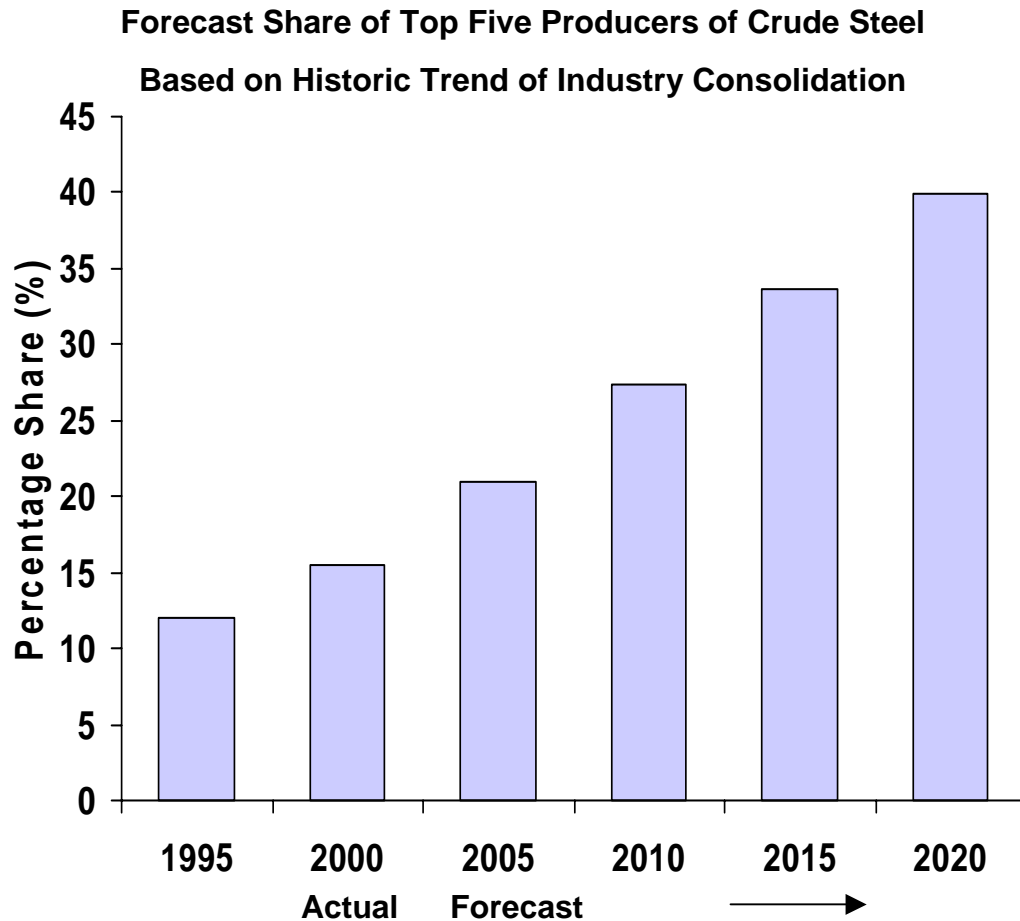
	2002	% p.a. growth	2007	2015/20	Key differences
EU-15	138	1.0%	145	157	
Other Europe	36	6.0%	48	77	
Former USSR	30	5.0%	38	57	
NAFTA	131	2.0%	145	170	
Latin America	28	6.0%	37	59	
China	211	7.5%	303	542	+330
Japan	72	1.0%	76	82	
Other Asia	130	6.0%	175	278	+148
Australia / NZ	7	1.0%	7	8	
Africa	16	6.0%	21	34	
Middle East	20	6.0%	26	42	
Total	819		1,022	1,504	

Source: Hatch Beddows analysis

- **Demand side:** Continued rapid growth in consumption
- **Supply side:** Constraints in raw materials, transport capacity

The Result: Better Returns, Improved Access to Capital = The Strong Get Stronger

In fifteen years consolidation growth will result in the top 5 steel companies accounting for 40% of global crude steel production; over 100 Mtpa each



- Will an Indian steel company be one of the top five? [it already is]
- Which companies will be in the top five?
- Which Indian companies will become part of a top five company?

Strong companies will attract capital to become stronger; weaker companies will be acquired

Chart developed before Mittal Steel

Source: Hatch Beddows analysis

Solving new challenges with old ideas and attitudes brings bad results

- Crimean War
- Maginot Line
- The danger of managerial obsolescence : the 15 year rule!

Today's dangers for the steel industry:

- Permanently high prices Will lead to material substitution
- Price volatility Price risk hedging mechanisms are needed
- Continuing obsession with overcapacity We need well managed equilibrium capacity

**Long run returns will be driven - by competition – to an equilibrium position
12 – 15% ROA?**

- An industry no longer dominated by NA, EU and Japanese
- Look at the composition of the IISI Exec Committee
- Look at the emerging world players, Posco, Gerdau, Tisco, Techint, Boasteel, Severstal etc.
- And the world's largest steel company (in prospect) Mittal Steel

Strengths

- Costs
- Raw Materials
- Technical Depth
- Geography

Opportunities

- Growth in Demand

Weaknesses

- Infrastructure
- Cost of Capital
- External Perception
- Fragmented and Complex Public Sector

Threats

- Repeating the Past

Thank You