

## “Customizing steel- can retail therapy heal the wounds?”

There seems to be no respite for the global steel industry which has been experiencing a roller coaster ride over the last few years. The difficult phase of the global steel industry which started with the onset of global financial crises shows no signs of charting a clear sustainable path going ahead. May it be the shifting of the production centres (from the consumption centres to the low-cost production centres) or be it the changes in pricing contracts/period of the key raw-materials used by the industry. Today the only thing which binds the global steel makers together is their falling profitability. Making things worse, despite a marginal improvement in demand from the advanced economies, the economic and political challenges faced by the emerging economies especially India and China, pose a severe threat for the revival of the global steel industry.

Globally, for the last few years, steel manufacturing companies are witnessing a severe dent in their profitability. To combat this situation, domestic steel companies have been taking corrective steps like achieving self-sufficiency in their raw-materials requirement and improving their process efficiency etc. However, these steps don't seem to suffice the current need of the hour which has forced steel producers to look for alternative ways of generating value added revenues. From being a seller's market traditionally, the global steel industry is shifting its base to being a buyer's market.

Domestically, steel players are now scouting out various expansion plans into their retail forays. What needs to be looked upon is, can this retail therapy help the bleeding steel industry to heal its wound and bring it back on track?

During FY05-FY13, domestic steel capacity has almost doubled from about 48 mn TPA to 90 mn TPA. During the same period, share of secondary steel producer's capacity almost remained constant at around 35 percent. This means that the secondary steel producers almost matched the same growth in expansion as compared to the primary steel producers. In its quest to achieve self-sufficiency, the Indian market which was pre-dominantly a net importer of steel was able to absorb the addition in steel capacities. However, while the first half of FY05-FY13 period, witnessed robust growth in domestic steel demand, the latter half saw a significant suppression in demand. As India's steel demand moved up to the levels of around 75-80 mn TPA, domestic steel capacity had reached to 90 mn TPA. Still counting, CARE Research expects the domestic steel capacity is likely to expand to about 115 mn TPA in the next 3-4 years. In order to off-load the additional steel production coming out from these expanded capacities, major steel companies through their retail foray have now started customizing their steel products (in their Steel Service Centres) according to various customers' requirements.

While some may say that the Steel Service Centres (SSC) is a relatively new concept in India. However, the fact is, SSC's has been prevalent in the market since quite a long time now. Earlier it was the small and fragmented players in the market which were performing the role of SSC's to cater to the customized steel demand of the end-user consumer. So what is forcing all the major steel producers to further forward integrate themselves and customize their products according to the customer expectations?

Historically, with respect to their geographical locations, the secondary steel producers are located much near to the high consumption areas, as against the major steel producers, which are located in areas with close proximity to their raw-material linkages. In order to remain competitive, despite their higher cost of production, these secondary steel producers played the role of a value added service provider effectively customizing various steel products in accordance with the retail demand.

Owing to a robust growth in domestic demand, both the major as well as the secondary steel producers were able to sell their produce and the domestic steel industry remained a seller's market for quite a long time. However, with demand showing significant signs of contraction, the industry is now witnessing a competitive phase between the major and the secondary steel producer's to entice its consumers. While the secondary steel producers are backward integrating themselves, major steel producers are busy formulating their forward integration strategy. Through their retail outlets (like The JSW Shoppe and Essar Hypermart), these major companies are now spreading their reach to cater to the huge untapped retail demand.

To conclude our analysis whether the retail chain outlets can help the steel companies to speed up their healing process, CARE Research believes it would to a certain extent help major steel companies in improving upon their profitability. However, more so it will certainly help these producers in ensuring their production off-take in the domestic markets. Not to forget the fact, that in doing so, these players are likely to garner the share of the secondary steel producers.

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