



Domestic Growth: ‘Could India be the next China in 5-10 years’ ?

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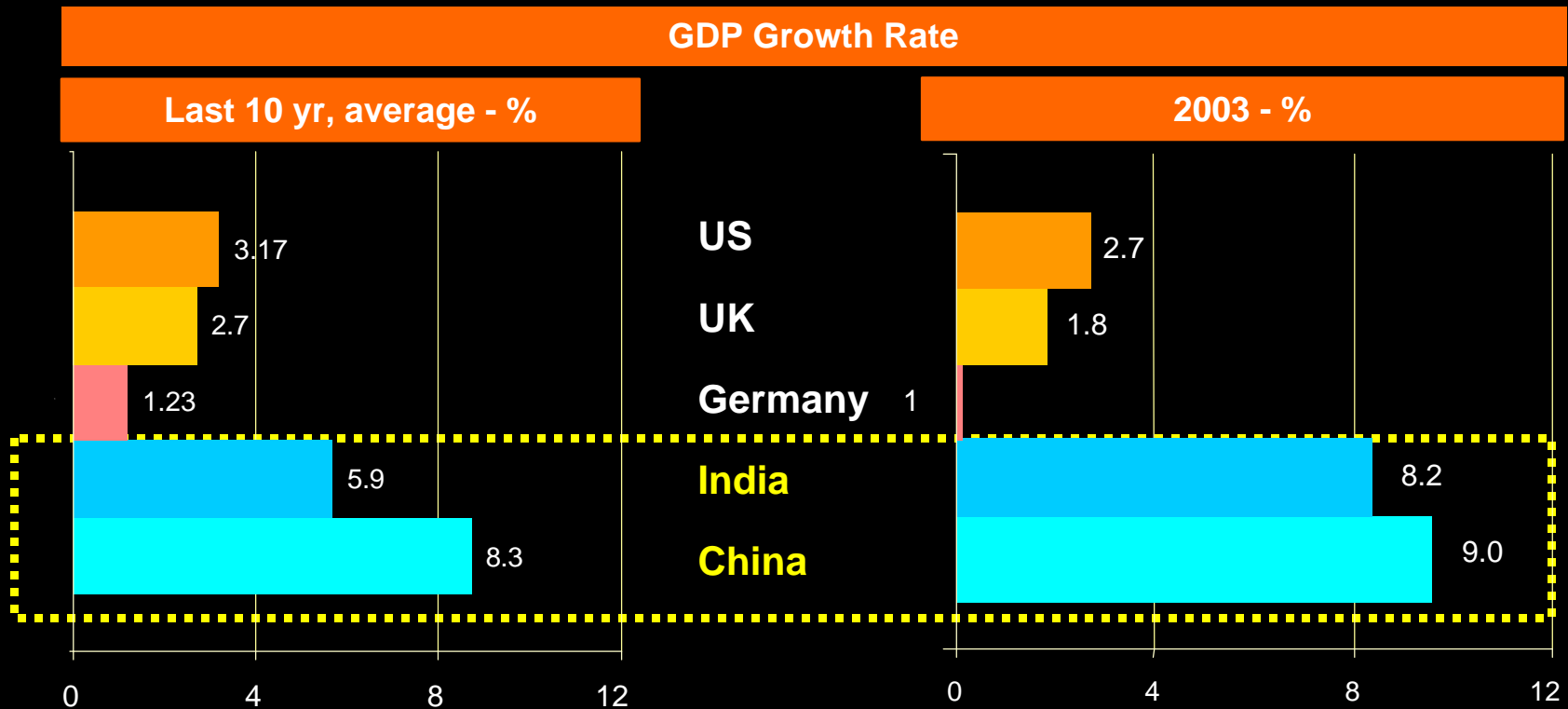


Essar Steel Limited - brief overview

- Essar Group has a presence in Steel, Telecom, Shipping, Power, Oil & Gas and Construction - Investment of over US \$4.3 bn
- Essar Steel, an integrated steel producer producing high quality steel
 - operates the world's largest gas based Hot Briquetted Iron (HBI) plant of 3.5 mtpa, a 2.4 mtpa Hot Rolled Coils (HRC) Plant and 0.35 mtpa Cold Rolled complex in Indonesia
 - also has joint ventures in 4 mtpa Pelletisation plant in Andhra Pradesh
- Amongst the lowest cost producers of steel in the world
- Future plans of the company include expansion 3.5 mtpa in 18 months

India and China followed similar development models

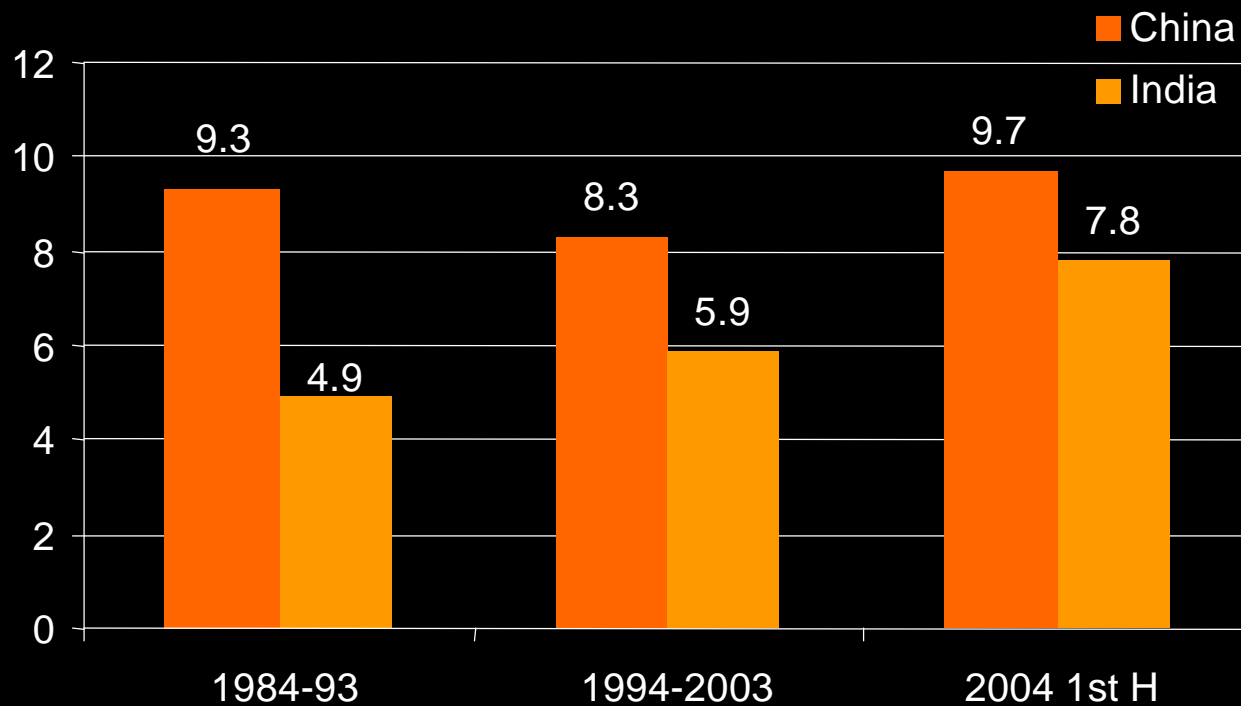
- The economic potential and challenges faced by India were very much like those of China - both are vast and developing rapidly
- Both countries followed similar development models - Deregulation, Open to foreign trade and investment, allow competition etc



China - The early mover advantage

- India started its development initiatives from 1991, while China in 1978.

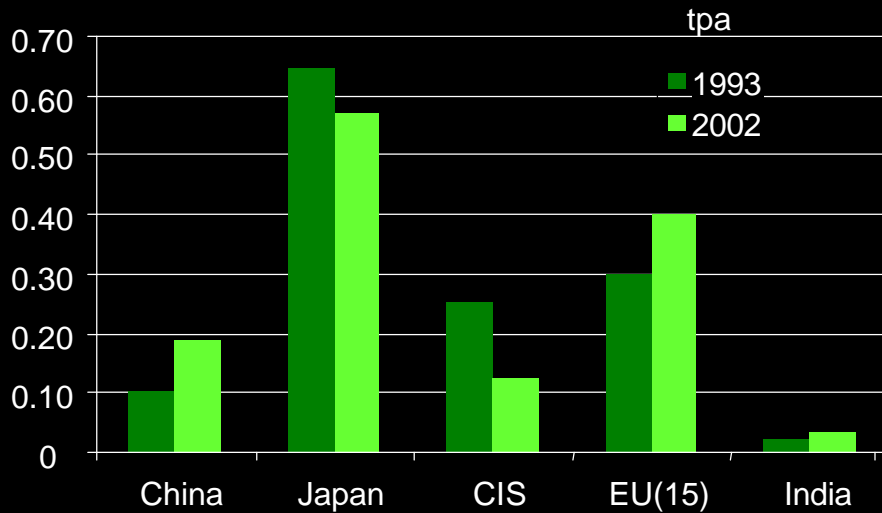
Average GDP growth rates (%)



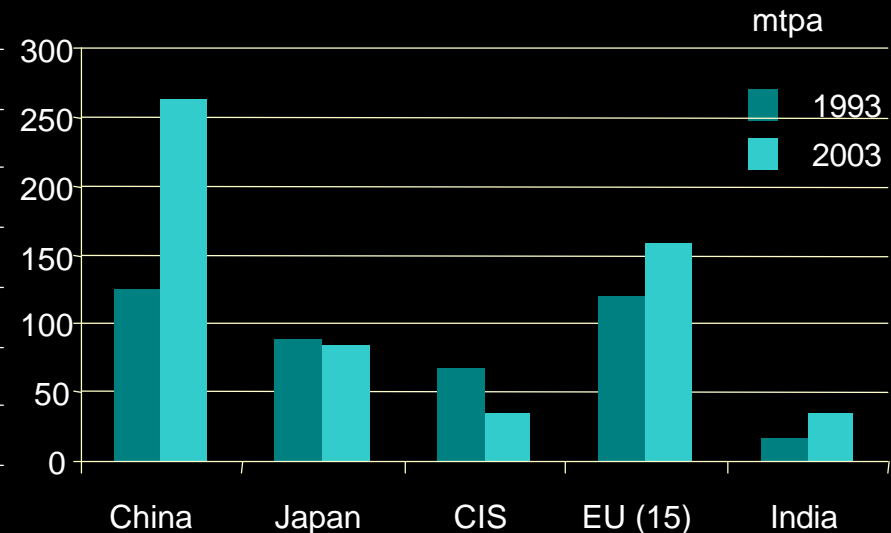
China has the lead - A dominant player in steel

- The largest producer and consumer of steel - between 1993 -2003
 - Production increased from 90 mtpa to 220 mtpa at a CAGR of about 9%
 - Consumption increased from 124 mtpa to 264 mtpa at a CAGR of about 8% against global growth of about 3% (CAGR)

Global per capita steel consumption



Global steel consumption



China leading the growth path - way ahead of others

India inching up - robust economic outlook

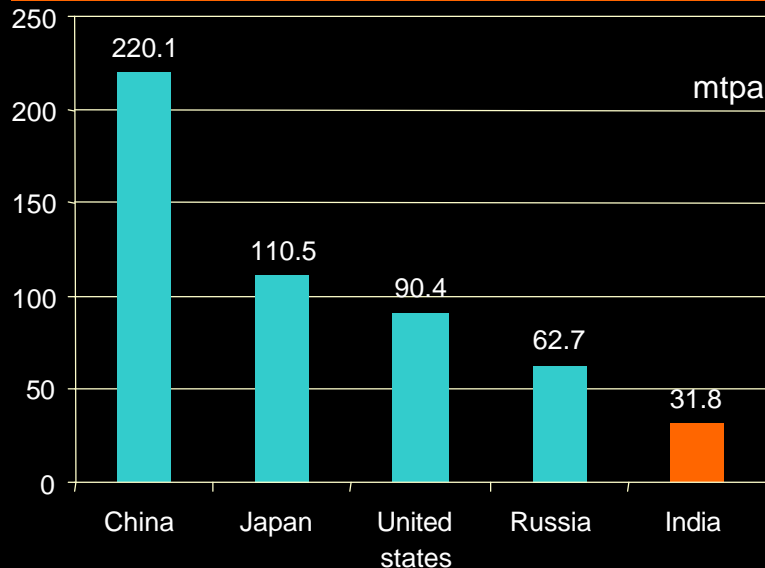
- India is the world's 4th largest economy with US\$ 3 trillion GDP in terms of PPP after US, China and Japan
- India is the one of the fastest growing economies - GDP growth rate 8.2% for 2003-04; 10 year average GDP growth at 5.9%
- Projected to be amongst fastest growing economies - 6-7% in next 5 years
- Foreign exchange reserves at US\$120 bn makes it 6th largest in the world
- S&P recently raised outlook on India's long term local currency and foreign currency - India rated as 3rd most preferred destination for investment by FII's

Projected to be the fastest growing economy - GDP growth rate of 6-7%

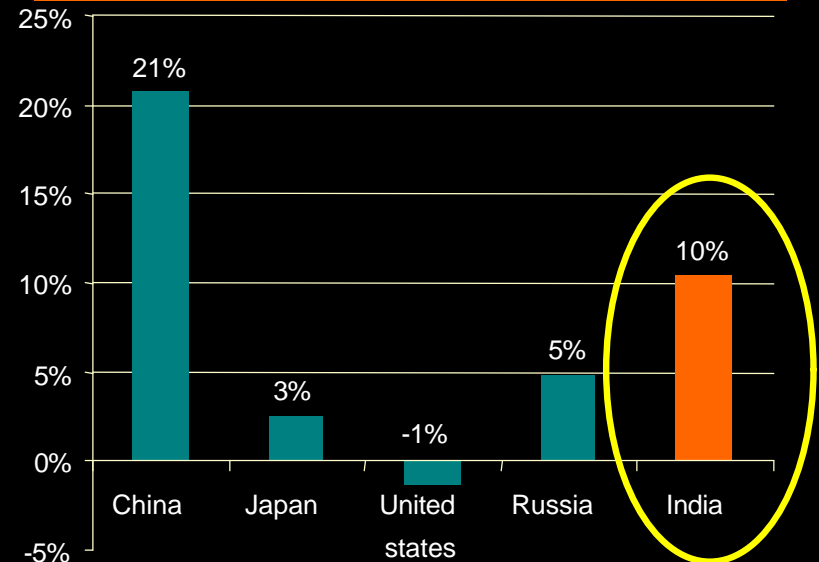
A strong domestic market base in steel

- India is amongst top 8 producers and consumers of steel
 - Production increased from 15 mt in 1993 to 31.8 mt in 2003 at a CAGR of 7.8% against world growth of 3% and China about 9.3%
 - India's share in global steel, up from 2.1% in 1993 to 3.3% in 2003

Top Countries - Production (2003)



Growth in Steel Production (2002-03)



Still a long way to go - per capita consmp. only 30kgs against world ave. 140 kg

Has certain inherent strengths

- India has certain inherent strengths compared to other developed economies, which positions India as a very competitive steel player

Iron Ore

Abundant availability of high grade ore - 5th largest producer

Energy/Fuel

Significant regulatory changes to result in better future availability of energy resources

Human Resources

Abundant availability of experienced and skilled professional management and low cost manpower

Technology

Modern and relatively new plants employing latest technology and comparable to developed economies

Domestic Market

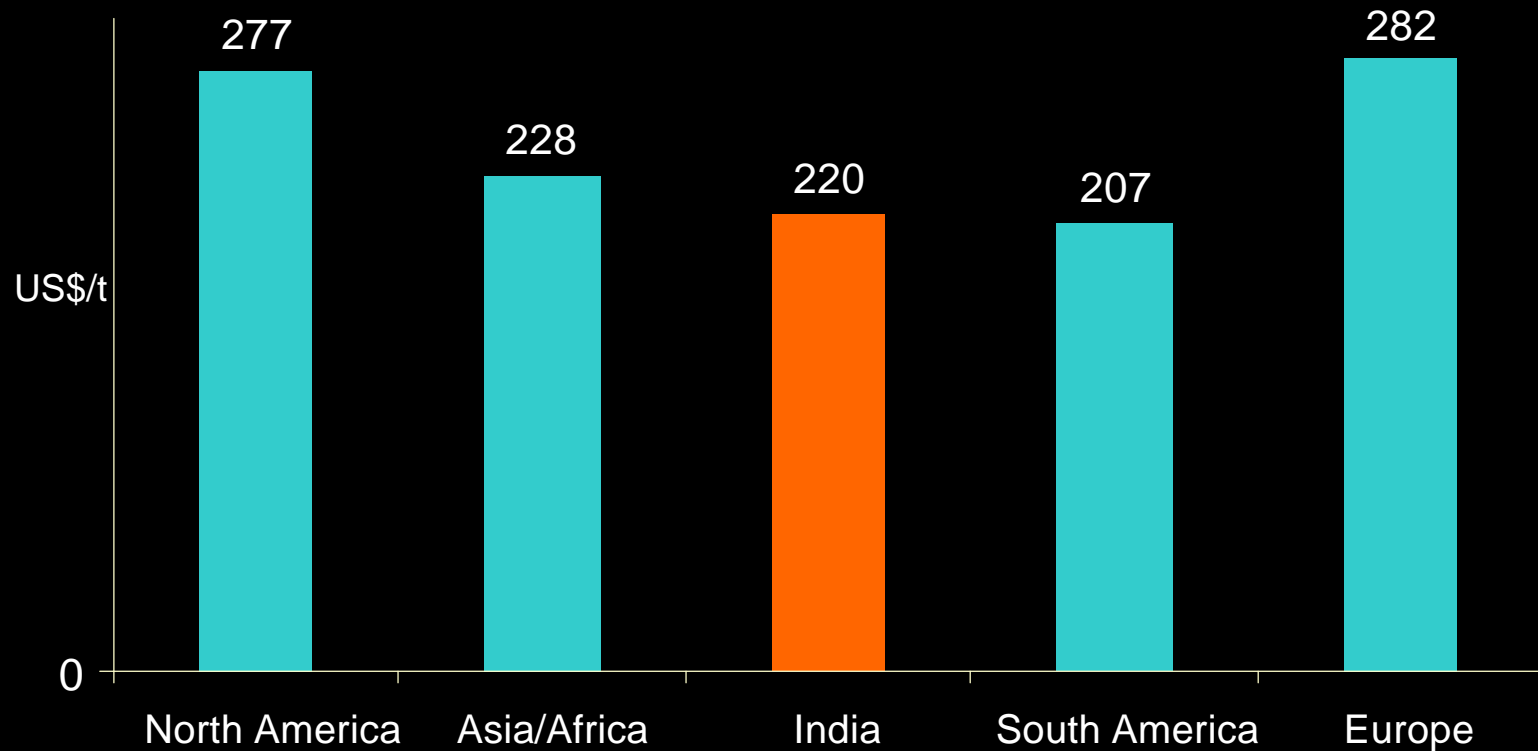
Sizeable and growing domestic market

India has successfully used technology to bridge the gap in weaker areas

Makes India one of the lowest cost producers of Steel

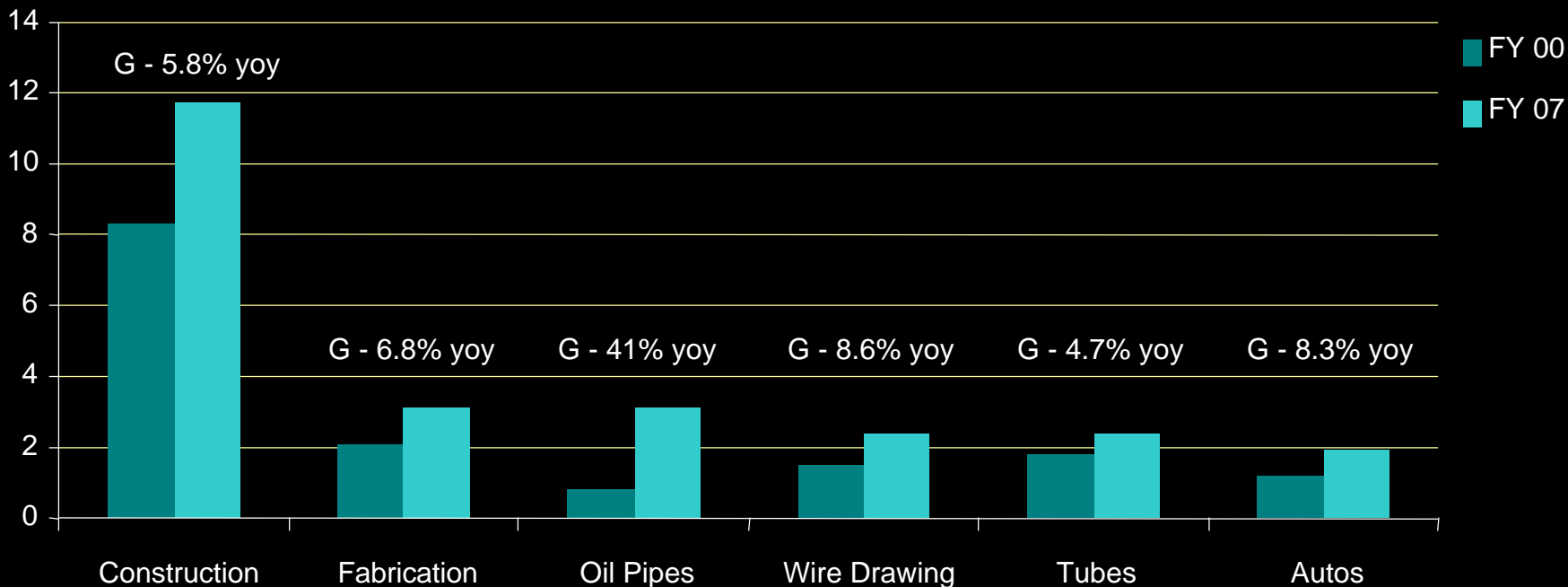


- India is amongst the most competitive steel producers in the world



Growing steel consuming industries

Demand projection - steel consuming industries in India (mtpa)

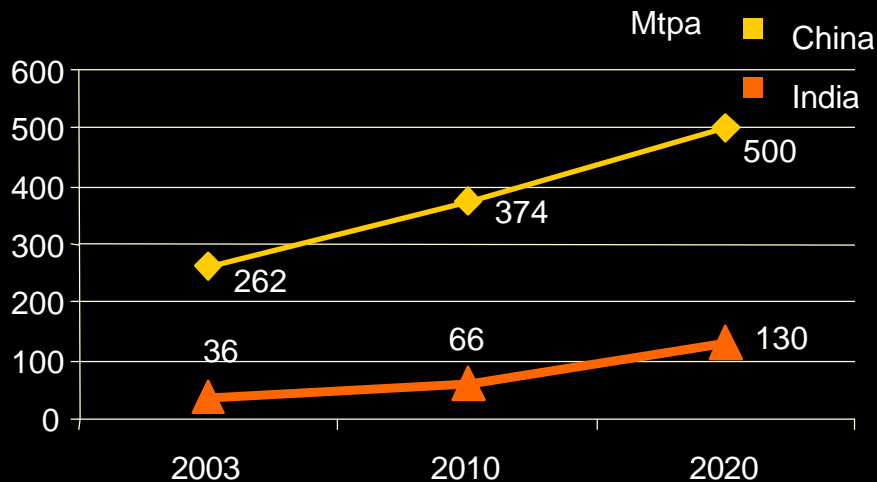


Demand for Steel likely to increase on the back of growth in steel consuming industries

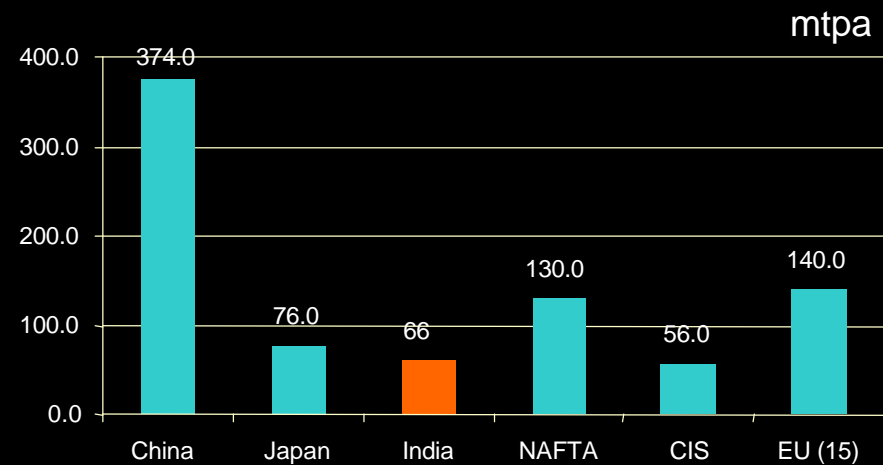
Provides India with huge potential

- India will be a key global steel market - last 10 year steel growth at 7.8%, next 10 year likely at about 9%
- Per capita consumption to increase to about 55-60kg by 2010 and over 100 kg by 2020

Projected Demand for Steel - India and China



Projected Demand for Steel - (2010)

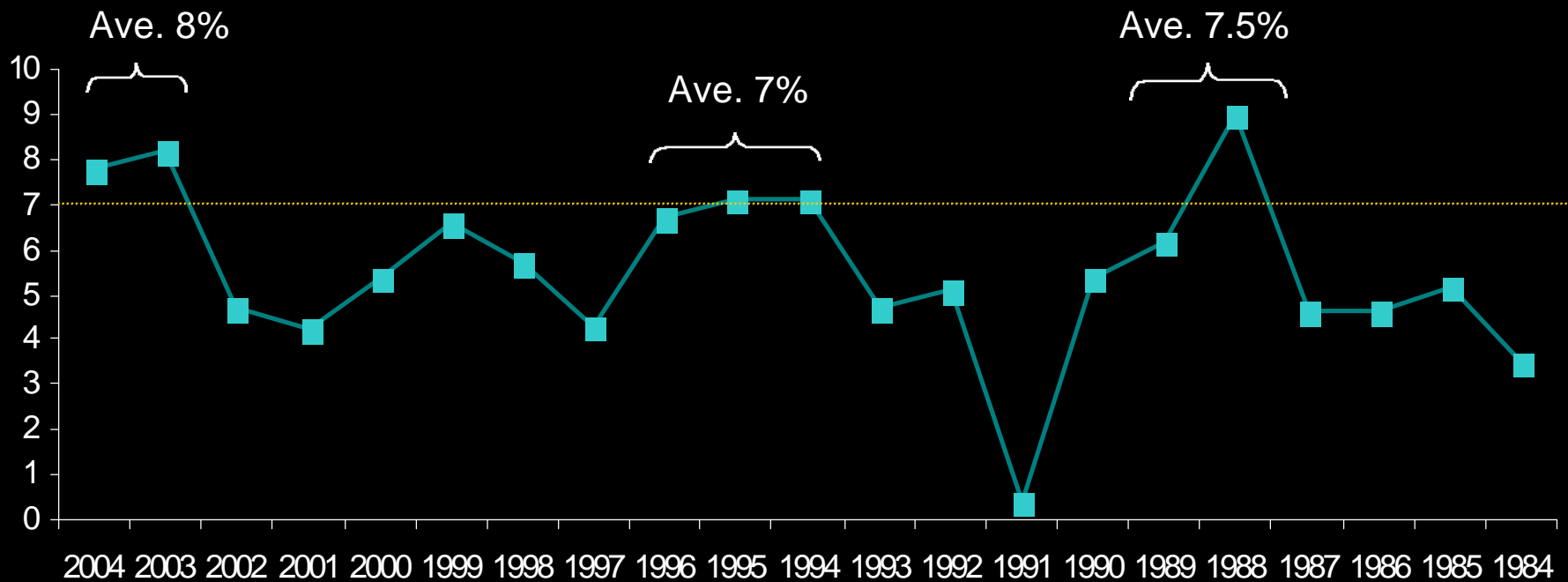


India likely to be amongst top 5 consumers of steel by 2010

However, India has a history of fluctuating growth rates



- India has a history of fluctuating GDP growth rates - short run of high growth rates followed by longer term of low GDP growth rates



Effect on growth rates of steel market

- The growth rates of steel demand may not be as estimated if the GDP growth rates fluctuate as seen historically

Demand pattern for steel in India under different GDP growth scenarios

	2004	2005	2006	2007	2008	2009	2010
At 7%	39	43	47	51	56	61	66
At 6%	39	42	45	49	52	56	61
At 5.5%	39	41	44	47	51	54	58
At 5%	38	41	43	46	49	53	56

Projected Demand for steel in India (2010) under different GDP growth scenarios

GDP growth %	Steel growth %	Demand mtpa
7.0	9.1	66
6.0	7.8	61
5.5	7.2	58
5.0	6.5	56

Conclusion



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- India likely to be amongst the fastest growing economies in future (7-10 years)
 - India has historically not witnessed a sustained period of high GDP growth rates - likely to affect the future growth of steel consumption
 - Expect a steady and stable long term growth against windfall growth rate
 - India has a substantial base, with the future looking brighter - India has the potential to be amongst the top 5 steel markets in the world

Steel consumption in India will not be as large as China's but India will be a significant player in the world steel industry in future