

Bloomberg News

India Capital's Thorn Comments on Steel Demand, Iron Ore Prices

By Ravil Shirodkar

Jon Thorn, who manages \$170 million in stocks at India Capital Fund Ltd. in Hong Kong, comments on the demand outlook for metals, India's efforts to attract overseas investment in its steel industry and boost oil exploration.

India Capital Fund has a fifth of its assets in Indian metals companies such as Tata Steel Ltd., the country's second-biggest steelmaker. The fund has 15 percent of its money in energy companies. Thorn spoke in an interview today.

On steel demand:

"The entire commodities cycle - from metals to chemicals - looks good. Our view on the steel cycle is that it has some way to go. I don't see what stops it, unless there's a sharp economic reversal globally. Most steel companies I've spoken to don't see any reduction in prices. In fact, they see an increase. It's a supply deficient market right now. Most of the demand estimates on the street need to be tweaked up, not down."

On impact of rising iron ore price on steelmakers:

"It's clear not all steel companies will make money. Some will get squeezed because they won't be able to pass on rising costs to consumers. That's always the risk in a commodity-like business. There's also a risk of end users, the likes of Toyota and other carmakers, lowering the amount of steel used in a car as part of their global cost-reduction program.

"That's why a company like Tata Steel is in a great spot. The company is moving into a high value-added segment, has its own iron ore and imports just half its coal needs. That doesn't expose it too much to rising global raw material prices. And if Tata Steel does what it plans to do — boost production capacity threefold in eight years — its costs will drop sharply."

On India's efforts to attract overseas investments:

"The Posco-BHP project in Orissa can be a potential gold mine. It will be a great endorsement for India. The size of

this and other projects planned in Orissa are half the foreign direct investment India gets annually. BHP has a presence everywhere in the world and it's not a surprise they want to be in Orissa. But Posco coming to India is saying a lot. The company is one of the most competitive and advanced players in the business. You can't get more serious players than the two. My concern however is that the Orissa government might get greedy in the way it manages the projects. My fear is at the state government level, especially if they make someone who's not smart or wide awake in charge of the project."

South Korea's Posco, the world's fourth-biggest steelmaker, and BHP, the world's largest miner, said in August they were in talks with India's government to build a \$8.4 billion steel and iron ore complex in Orissa, an eastern state. Vedanta Resources Plc, India's largest copper and zinc producer, plans to spend \$1 billion on an aluminum smelter and power plant in the same state.

On India boosting exploration and buying oil, gas assets overseas:

"It's clear the energy requirements of India and China are growing faster than anybody else and so you better be out there finding these resources. China and India cannot pay top dollar for consistent oil and gas supplies and so it behooves them to do something about it. At present, China has the financial muscle and the size, India doesn't.

It is important India creates the so-called national champions by merging the state-owned oil and gas companies to form a conglomerate. That's the shape of the industry globally and if you want to compete, you'd better be in the same shape."

India plans to fold its 14 state-owned oil and gas companies into either one or two groups as part of a plan by Prime Minister Manmohan Singh to boost overseas exploration and catch up with China in securing energy supplies.