

CORPORATE NEWS

Indian steel mill forges ahead in U.S.

Conceived during a boom market, Welspun-Gujarat's new pipe-making plant opens despite a deep recession

BY ROBERT GUY MATTHEWS

LITTLE ROCK, Ark.—With U.S. steel mills operating at their lowest levels since the Great Depression, India's Welspun-Gujarat Stahl Rohren Ltd. last week opened a \$150 million plant here to make steel pipe.

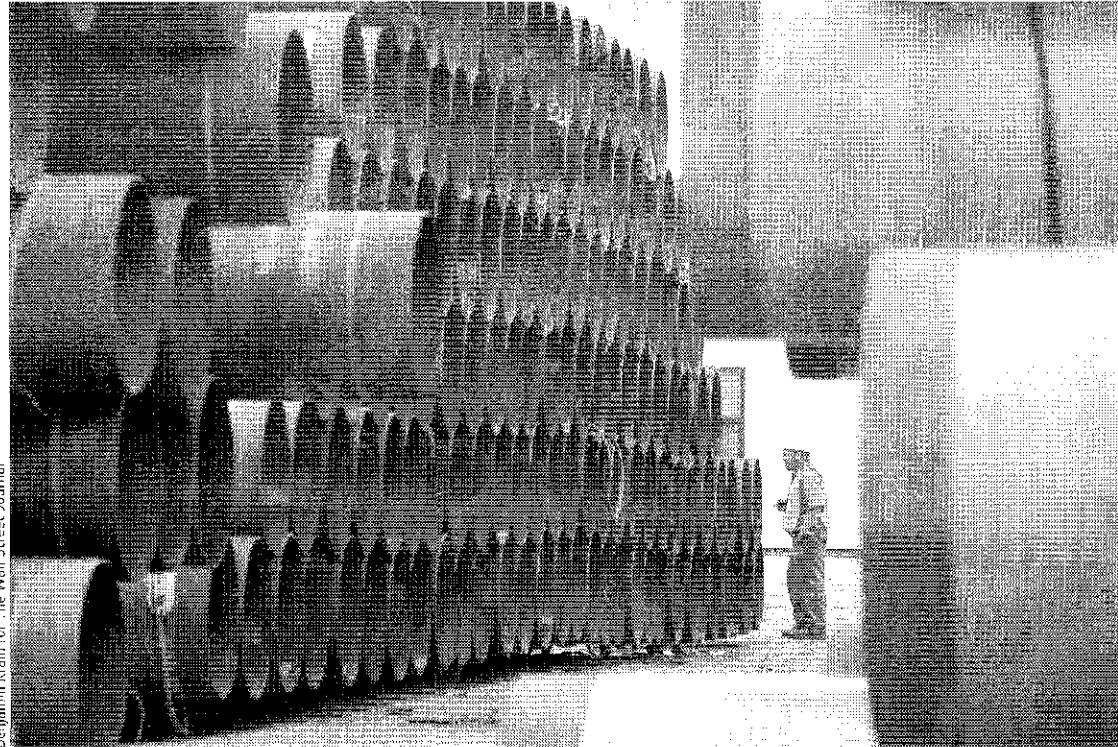
The Welspun Pipes Inc. plant was conceived during a steel boom, when energy companies were struggling to get enough conduit to deliver oil and gas. But with the plant nearing completion at the end of last year, buyers vanished.

"I was biting my nails," recalls Rajesh Chokhani, head of business development at the plant. Then an encouraging email arrived from his boss in Mumbai. B.K. Goenka, chairman and managing director of Welspun-Gujarat, told Mr. Chokhani that layoffs elsewhere made it a good time to find talented workers.

Rather than mothball the new plant and conserve cash, Mr. Goenka decided to establish a U.S. beachhead for the Indian company and at least generate some revenue. "Everyone was talking negative," but the economy is bound to get better, he says. With about \$810 million in revenue for its latest fiscal year, Welspun-Gujarat, a textile and manufacturing company, figured it could ride out the downturn.

Welspun's Little Rock project provides a look at how at least one company, backed by growth in an emerging economy, is making adjustments and plowing ahead as the U.S. recession lingers.

Welspun is betting it can position itself for a rebound when the economy perks up. The U.S. Depart-



Benjamin Krain for The Wall Street Journal

ment of Energy estimates that more than 40,000 kilometers of new oil and gas pipeline will be needed in the U.S. over the next four years. About 7,700 kilometers of natural-gas lines are expected to be completed this year.

But for the time being, work is scarce. Capacity utilization at U.S. steel mills has dropped to 43%, a level not seen since the Depression. Most major energy producers are scaling back exploration, and some steel makers say they have seen pipe orders from energy producers fall 30% or more since last year. Welspun competitors Southern Con-

crete Pile Public Co., Hanwei Energy Services Corp. and Bihar Tubes Ltd. haven't closed plants but say sales are down.

Welspun's Little Rock plant, which welds 24-meter-long oil and gas pipes, is designed to run 500 people on three shifts. It now is operating one shift, 10 to 12 hours a day, with 300 people. Mr. Goenka says he is giving the plant 24 months to get to full capacity.

Making steel pipe for the oil and gas industry is different than churning out commodity sheets and rolls of steel. Each pipeline requires steel of specific diameters and thick-

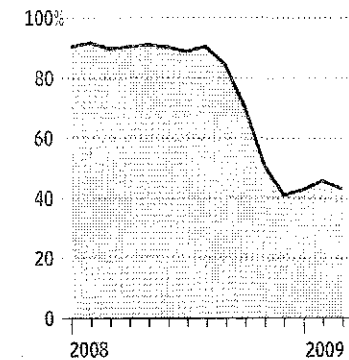
nesses. Often, the steel used must have a specific metallurgical property to withstand its particular environment, such as underground or deep in the ocean. The projects often are huge and plants of Little Rock's size typically are devoted to one or two large projects.

But that approach doesn't work as potential customers put big capital projects on hold. So Welspun Pipes is relying on orders from oil and gas companies that need to replace existing pipe.

Mr. Chokhani, the business-development chief, has told his staff to make cold calls to small engineer-

Dropping out

Capacity-utilization rate at U.S. steel mills



Note: For raw steel production
Source: American Iron and Steel Institute

Welspun employee Jim Planek is flanked by steel pipe at the company's new Little Rock, Ark., plant.

ing firms and to take any projects, even small ones. His sales team recently received two relatively small, 25,000-metric-ton orders from small oil and gas companies. It has submitted bids for two large projects, each for about 350,000 tons, in Peru and Papua New Guinea.

Profit margins are running around 4%-5%, down from the 8%-9% that would be expected in a stronger economy, he says.

To keep the Arkansas plant busy, Welspun-Gujarat is sending production from India to Little Rock. One of those projects is for about 240,000 tons on El Paso Corp.'s Ruby Pipeline, a 640-kilometer conduit from Wyoming to Oregon.