'A strong credit profile & robust balance sheet remain an enterprise priority'

Tata Steel, which earlier this week reported its July-September earnings, saw its consolidated net profit decline 90% on a year-on-year basis, missing analyst estimates amid softening demand environment, gross steel spreads declining globally, and high energy costs weighing on the company. **Koushik Chatterjee,** *executive director & CFO, in an interview with* **Shobhana Subramanian,** *said the company is looking at improving its margins in the second half compared with the second quarter. Edited excerpts:*

The India business has been a bit of a disappointment with realisations lower than expected. When can we see an improvement? To what extent has the export duty hurt the business?

Tata Steel's India business is one of the most competitive in the global steel industry. In the quarter gone by, we have sold a record 4.73 million tonne, which also demonstrates the strength of our distribution and market reach in a challenging market. So, at the operating level, we had a good quarter in India. However, there was a confluence of adverse factors as we had opening inventory which had high embedded cost because of coal imported in the previous quarter; and the price realisation on steel sales in the market was significantly lower than the previous quarter. One of the driving factors behind lower realisations was certainly the impact of export duty on the industry. We are definitely looking at improvement in margins in the second half compared with the second quarter.

What was the reason for the sharp sequential dip in the margins for Tata Steel Europe?

Primarily, the high cost of raw materials and consumption of higher cost opening inventory generated in the previous quarter had its impact on the margins in Q2. Moreover, the macro conditions in Europe with rising inflation, high energy costs and interest rate hikes also had its impact on the demand dynamics, resulting in lower deliveries by 12% quarter-on-quarter. We are keeping a close watch on the evolving macro-fundamentals, including energy costs as they have softened lately, which is an encouraging sign.

How do you visualise steel demand both overseas and in India in the next six months?

The Indian demand conditions are fairly robust with sectors like automotive doing well. Post monsoon we should also see construction activities picking up. The outlook on India's steel demand is good for the next half year. In Europe, prices may be softer in the second half compared with the first six months and with coal prices still around $300 per tonne, the longer-term steel contract negotiations for 2023 will have to reflect the increased cost base on raw materials and energy costs.

The net debt on Tata Steel's books has gone up to ₹71,700 crore. How do you see the journey on the deleveraging and the principle of capital allocation going forward?

Our deleveraging pathway will remain the same in the foreseeable future and we will continuously look to reduce debt. The arithmetic on the net debt increase during this quarter is clear as we have paid for the Neelachal Ispat acquisition close to ₹10,000 crore, paid highest ever dividend of ₹6,260 crore, and allocated higher capex especially on the Kalinganagar expansion in an underlying weak quarter. Sometimes, it becomes important to allocate large capital on acquisitions which will in the long term create value for Tata Steel. Accordingly, we have to readjust the pace and quantum of the deleveraging in the short term. But maintaining a strong credit profile and robust balance sheet remains an enterprise priority.

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There has been a lot of volatility in the UK financial markets recently. How did you manage your large pension scheme and how are you derisking the pension scheme?

Yes, the UK witnessed volatility in long-term yields, especially in government bonds at the end of September 2022. While this did not directly affect pension funds, it resulted in sharp movements in pricing of derivatives used for hedging interest rates and inflation. Some UK pension funds faced challenges in depositing cash collateral against their negative derivative mark to market positions and they struggled to raise liquidity with falling bond prices. The British Steel Pension Scheme (BSPS), however, remained robust and healthy and had sufficient collateral available to manage its liquidity and MTM position. The BSPS have been proactively derisking through "buy in" insurance. So far, we have already locked in insurance to meet 30% of the scheme liabilities and are implementing further insurance buy-ins which will happen progressively.

What would be your expectations from COP27 in Egypt especially from a steel industry perspective?

We hope COP 27 makes progress on enabling the supply of technology and financing for industrial decarbonisation in steel, especially to the developing countries. Availability of transition financing towards decarbonisation is a critical enabler for hard to abate sectors as it is not always attractive for commercial capital and multilateral agencies have to do the heavy lifting to accelerate the transition. COP 27 also needs to seek to finalise negotiations on Article 6 of the rule book which emphasises the scaling up of carbon markets in a coordinated global approach. The pathway to climate-nature nexus and the use of nature-based solutions in achieving climate goals is also critical for COP27 to address.