'Expect marginal growth in demand, range-bound steel prices in 2023'

JSW Steel reported an 88.75 per cent year-on-year drop in its consolidated net profit in Q3FY23 because of higher costs and lower prices. In an interview, **SESHAGIRI RAO**, joint managing director and group chief financial officer, JSW Steel, tells **Ishita Ayan Dutt** that domestic demand is strong and there are triggers for a sentiment revival in China in Q4, though stubborn inflation in many economies may prevent a significant uptick in world steel demand. Edited excerpts:

Q&A

SESHAGIRI RAO

Joint managing director and group chief financial officer, JSW Steel

Domestic demand is strong but you are expecting a mild recession in major global economies in 2023. Against this backdrop, what is the outlook for Q4FY23?

As far as India is concerned, we are definitely seeing strong demand acceleration over Q3. The auto sector would do much better in Q4 because production remains generally subdued in December; we are expecting much more infrastructure spend, particularly by state governments.

Globally, there was a fall in prices until December and generally, people tend to destock in such a scenario to reduce inventory losses. But there are triggers for a revival in sentiment in China which lifted prices of steel and its raw material. So, restocking will start globally.

How will headwinds in major economies play out for the sector?

Inflation appears to be stubborn in many economies. Though it's on a declining trend, it continues to rise at a lower quantum in the US and Europe. In Japan, inflation is at its highest since 1981. All these are indicating that financial conditions will become more difficult going forward. It's not boding well for major growth in 2023.

The world economy is not growing in a robust manner, so I don't expect a big turnaround in steel demand as seen in 2021. We expect marginal growth in demand and range-bound steel prices in 2023.

But flat steel prices have increased twice in January. Have prices bottomed out?

They have definitely bottomed out. Prices started going up globally and in India, too. But the rise in global prices has been sharp and Indian prices are still at a discount. The difference between the landed cost of imports and domestic prices is at least 6 per cent.

With the withdrawal of export duty is the inventory level coming down?

Last quarter, there was an accumulation of inventory to the tune of around 180,000 tonnes. Despite selling more quantities in the domestic market, our inventory went up due to a drop in exports. This quarter, there is an opportunity to push more volumes in export markets. That really increases our competitiveness in export markets.

The deadline for submission of expression of interest for NMDC is coming up. Would you participate?

We will.

And would you bid for Rashtriya Ispat Nigam (RINL), as well?

Both are reasonably big-size projects and we will evaluate both. RINL is a port-based plant and there is an opportunity to expand; it has a large tract of land. The plant is reasonably big with a 7 mt capacity.

NMDC is a 3 mt integrated facility located in the iron ore belt and also well connected by railroad. So, both are worth looking at.

You are already significantly leveraged. How will an acquisition impact your balance sheet?

We should have a structure. Even though debt-to-Ebitda is at 3.51x, whatever expansion or acquisition we do, it will be in a manner so that our debt-to-Ebitda does not cross 3.75x.

What is on your wish list for the Union budget?

It should be growth-oriented. The industry is looking forward to more spending on infrastructure. Specific to steel, there should be a reduction in duty on items that are not available in India and the industry has to rely on sourcing from overseas markets for items, such as coking coal, zinc, and electrodes.

Also, last time, duties on steel were reduced from 12.5 to 7.5 per cent. But when the global economy is not doing well, India becomes a dumping ground. So, even if duties are not increased, a quick redressal mechanism is required in the event of dumping.

Finally, the budget for RoDTEP (remission of duties and taxes on exported products) should be increased to encourage manufacturing, it is insufficient.