

Q3FY16 Post Result Conference Call Transcript

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MODERATOR:

Ladies and gentlemen, good day and welcome to the JSPL, Q3FY 2016 earnings conference call hosted by Prabhudas Lilladher Private Limited. As a reminder all participant lines will be in the listen only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kamlesh Bagmar from Prabhudas Lilladher. Thank you and over to you sir.

MR. KAMLESH BAGMAR - PRABHUDAS LILLADHER PRIVATE LIMITED:

Yeah thanks Ali. On behalf of Prabhudas Lilladher I welcome you all to the Q3 FY16 earnings concall of Jindal Steel & Power Limited. I thank the management for providing us an opportunity to host the call. Now I will hand over the call to Mr. Bala, Group Head Investor Relations to take the call forward. Over to you Bala.

MR. BALA – GROUP HEAD INVESTOR RELATIONS, JSPL:

Thank you. On behalf of JSPL we would like to invite all the analysts and investors to the conference call.

MR. BALA – GROUP HEAD INVESTOR RELATIONS, JSPL:

Thank you. On behalf of JSPL, we would like to invite all the analysts and investors for the conference call to discuss our 3Q and nine months FY 2016 results. With us today, we have our Managing Director and Group CEO, Mr. Ravi Uppal; our Group CFO, Mr. K. Rajagopal, our Global CEO Mr. Rajesh Bhatia. One request to all the participants, kindly restrict your questions to two so that everybody gets an opportunity to listen to the management. I now hand it over to our MD & Group CEO Mr. Ravi Uppal.

MR. RAVI UPPAL – MD & GROUP CEO, JSPL:

Thank you Bala. Very good afternoon ladies and gentlemen. Thank you for joining us to discuss the results of Q3 and also the outlook of the business. You know you all have a copy of the results that we've announced. So I will not go into the details of the results where it is for JSPL, JPL or other constituent units. I would rather try to share with you what is not mentioned in the press release just to sort of update you about JSPL. The results for Q3 have been announced in the backdrop of a very unfavorable business environment for the steel industry. The steel industry not only in India but globally has been going through an unprecedented challenge. The global demand has slowed down, and many countries including China, all their domestic demands have come down substantially. But the Chinese who were consuming up to 790 million tonnes for the year 2015, their demand has slumped to a rate of 640 to 650 million tonnes, whereby an excess production of up to 140 million tonnes for which they were resorting to dumping in

the market which was excessive to them. India too was a relatively open market with low entry barriers. So therefore Chinese and including Koreans, they did dump a lot of materials. The extent of materials they were dumping in the market was at the rate of 1 million tonne per month, which on an annual basis was coming anywhere up to 12 to 14 million tonnes. And the Indian market also had not grown as much as one really wanted. But it still grew in the calendar year 2015 by 4%. So the total consumption of steel which is around 84 million tonnes, it grew by 4% which means another 3 million tonnes. But the benefit of that didn't go to the Indian steel producers. Rather it was claimed by the importers, or that is what had already caused pain to the domestic industry. And they also selling goods at very unsustainable prices which corresponded to their variable costs. So anyway the good news is as you all know, we got a really big relief when the government on 5th of February announced the imposition of MIP and they announced the rate for the various items of steel ranging from the semi finished goods to plates, coils, cold rolled products and the various long products like wire rods and TMT. We very much welcome the government's decision. We think it was long overdue. We are happy that though it came a bit late but it is there. And if you look at the prices that were given and the MIP when translated into the CIF port cost, and the cost to the domestic market, you know it leaves some head room for the domestic market to increase their prices.

The domestic prices and the domestic producers are very sensitive to our customers. Therefore whatever increase we do, we will obviously do it keeping in mind the interests of the domestic customers. There will be increase in prices to a level that we think will help the local industry to stand on its own feet and not get into a kind of crisis that we witnessed in the last 18 months when quarter after quarter the prices were going down.

You know it might come to you as a surprise but I will share with you that although the financial numbers did not look as we wanted them to, and were not up to our own expectations for reasons which were external to us, we as a company in terms of its physical performance of the units put up robust performance. And that is precisely what I want to share with you now that if you look at the steel production of the JSPL consolidated, it grew by 12%. And our sales volumes on a consolidated basis grew by 23%. I must give a lot of credit and these big numbers that I just mentioned to you to our unit in Oman which performed magnificently increased deliveries and they went beyond Oman and the neighboring markets of UAE even to European markets and they have done a good job there.

Even in the domestic market, notwithstanding our demand, our total domestic steel sales did well. We did remarkably well in the retail market of the steel in India. I am happy to share with you that in the last quarter our total TMT sales in a retail market grew two fold compared to the previous quarter and earlier periods. The company continued to focus on the building up of efficiency including capital management. Tried to see to its own needs of financial capital reduced to the bare minimum. We are happy to share with you that we had 10% reduction in our total working capital including our civil works.

On the order side some very good news to share with you. I am happy to tell you that after getting the first section of Delhi-Calcutta freight corridor, we have also secured the order for the section 2 which was ordered of 105,000 tonnes of prime rails that we got from GMR. And so this is for three sections. So with this we have got orders for the two sections. The deliveries for the first section have gone magnificently well. Our customer Tata Aldesa are extremely pleased with the performance of JSPL there. And now we are gunning for the third section. We have also got the principle approval for supply of rails to the western corridor now. So I think this is opening a very good possibility for us to get into a rail segment which until now we had very limited presence. But this opens a completely new avenue of business for us.

I am also happy to tell you that we have got an order for 150,000 tonnes of rails from State Drilling Corporation. And this order is for supply to a Middle Eastern country. And this also includes for the first time 20,000 tonnes of head hardened rails, and JSPL have once again I am very pleased to share with you, we have completed our head hardened rails to the first plant in India to produce head hardened rails. All the metros, all the freight corridors, western, eastern, they all use head hardened rails. And we have become the only supplier in India which is qualified to supply the head hardened rails. At this time this plant is the fifth plant of its

kind in the world. So these are a lot of things which have happened in the marketing side. I am also pleased to tell you that JSPL has very successfully broken into the high-rise building segment of the market. Although we have introduced on a small scale our new business segment of construction materials and construction solutions, in the last quarter it got a lot of buoyancy and we secured a lot of orders and construction solutions. Some of the very prestigious high-rise buildings are 45 stories and above in Noida, Gurgaon, Mumbai, Hyderabad, Bangalore. Very prestigious campuses have been awarded to JSPL. So this is ladies and gentlemen, a completely new stream of business that JSPL have got on their plate. And I do reckon that this year our total business from construction segment including materials and solutions will be close to about 450 crores. And I am hoping that next year we will double this volume.

Although we had put a complete stoppage on our further capital expenditure as I shared with you earlier, but we have some plants which we started way back 2 years ago. I am happy to share with you that Oman, our bar mill, 1.4 million tonnes bar mill got completed in mid-January and went off beautifully well. And we have one more bar mill which we started 2 years ago in Angul which will also go into commission during the current quarter or the next. With that all the projects which were under execution started 2 years ago will be fully commissioned. And need to now produce and sell.

Our other divisions, fabrication shop had done marvelously well. I am happy to tell you that JSPL have now built up a heavy fabrication facility with a capacity of up to 20,000 tonnes per month. We are now the largest fabrication facility within the country. The second company after us has only 5000 tonnes. We have 4 plants working on heavy fabrication. All the industrial units, lot of bridges, ports etc which are coming, power plants, they all are our customers for JSPL heavy structures. So all in all we did very well when it comes to the buildup of capacity establishing new customers, doing well in the regional market, and we would also share with you that we see some green shoots now in the segment. In the infrastructure segment, the road segment, government has ordered lot of new contracts, and every one of them has business for us in our steel as well as in our construction material segment. And with that railways have also put a considerable investment and we are a beneficiary of the investment which is being made by Indian Railways. We are not only supplying rails but we also supply a whole host of other products that is plates and other structures which are required by the Indian Railway, and JSPL is one of the main approved vendors for that.

So I wanted to give you some sort of insights into the operations. We have also, sort of, during the quarter organized ourselves to strategic business units to bring more focus and profitability and the capital management. So far I am happy to report to all of you, the sales have gone very well on that. I mentioned to you about the steel. I would also like to mention to you about our pellet plants. Our pellet plants although the capacity utilization has increased, we are producing much more than we were producing a year ago. But the price realization because of the general slowdown in the market, the price of pellets were not as good as we had in the previous quarter or in the last 10 days we see that the prices after the MIP has again started to look up. So the dropping prices have had an adverse impact on most of the steel products and the raw materials that are connected with steel.

As far as power is concerned, although our plant load factor for the 4x250 megawatt unit, it improved up to 70%. But our EUP-II 2x600 megawatt unit had to be low as because of the winter demand and also unprecedented rains in some parts of the country where the transmission lines were disrupted and power supply uptake could not be much. So but I am quite optimistic that in the months to come the demands of power will again look up and we will be able to improve our PLF for the phase 2 for the EUP-II, as much as we have been able to get in the case of EUP-I. The power rates generally were under pressure because of the winter time. And relatively less of demand. So therefore the average rate that the NSR that we got, were slightly less compared to the previous quarter. But I am sure that we will try to catch up on this in the subsequent quarters. So all in all I think as we sit here today in the middle of February I am more optimistic and I think that the subsequent quarters the demand is going to look up, and we are already seeing some early signs of uptick in demand from the market. So I am hoping that by the time we come to the Q4, hopefully we will have better numbers to report with uptick in demand and also improvement in prices. So that's all from me, a brief summary

about some of the things that are not mentioned in the press release. But I thought that you being our stakeholders, I must share the good news with you which are not in the press release. So thank you very much.

I will now ask Mr. Rajagopal to share his comments on the financial performance with you.

MR. K. RAJAGOPAL – CFO DESIGNATE, JSPL:

Good afternoon to all of you. Detailed financials you already have. And I wanted to run through some of the key things and also to say certain things that you might have questions. So proactively I thought I could mention you also. And as far as revenue is concerned, we have seen that there is a reduction as compared to just the previous quarter. And this is mainly coming from reduction in the net realization price; about 78% has come in this quarter which has also resulted into this turnover. And you will see that EBITDA is about 14% as compared to the 20% last quarter is also mainly coming from net realization has come down as compared to the last quarter. So that has an impact on this. And you will find that depreciation is more than previous quarter. In the last quarter we had reset of depreciation which also included some reversals of the previous quarter, and now this quarter we have correct depreciation for this quarter. That is why you see some additional depreciation as compared to the last quarter.

And the finance cost this quarter has come down. It is also based on better utilization of capital and also some places where we are able to take a better reduction in rates. So accordingly you see that profit before tax is negative at 629 crores is mainly coming - in comparison to previous quarter 282 crores negative, is mainly contributed by reduction in EBITDA and also as compared to the depreciation in the previous quarter we have increased by 150 crores which is a correct depreciation for this quarter. And we have a tax credit, 226 crores, which is a result of the net loss after tax; net loss after tax is the 403 crores which is also double as compared to the previous quarter of 200 crores. But it is less than the same quarter of last year because last year the same quarter we had also the charge of additional levy we faced there which has come. So that is why this year it does have so it has come down. And net debt at JSPL level and on a consolidated level is more or less remaining same as compared to previous quarter. And which indicates that despite that we have EBITDA reduction, we had a better managed working capital, and also the maintenance capital expenditure which we have incurred is also met with reduction in working capital. That is why the debts have not gone up. And you will also find in the financial statement, our employee cost is considerably less as compared to the previous quarter is mainly reflecting our various employee policies in line with current difficulties being faced in the steel sector. So some of the provisions we made with higher increments and higher variable pay costs is also adjusted. So that is why it indicates our real position for the next quarter you will find that normal level will come. But this reflects this quarter what changes we have made even in the previous quarter. So that is on the overall JSPL level. And on a consolidated level we see that our revenue is also lesser as compared to last quarter of 4700 crores which is now currently at 4362 crores, which is also mainly contributed by reduction in JSPL which I have already explained. And EBITDA has also reduced from 21% of last quarter to 13% which is more or less the same level. While we had a positive EBITDA of 23% in JPL, but the EBITDA at a global level is also reduced as compared to the previous quarter and more or less we are at the same level of JSPL, 13 to 14%. And you will see the depreciation and finance costs as adjusted, as explained in JSPL, and there are no significant changes there. And you will also find exceptional items of 91 crores which is coming and is a forex gain in our overseas operations, against which we took loss in the previous quarter. And consequent improvement in the rates, so we had a gain which is reflected in the exceptional item. And as I said overall our net debt, it remained at the same level.. . We are able to maintain at the same level despite our EBITDA reductions.

I think this is our overall financial explanations. And I will also hand over to Rajesh to explain you a little more on our financial matters as well as the global operations.

MR. RAJESH BHATIA – CEO GLOBAL BUSINESS, JSPL:

Thank you sir. So global operations as Mr. Uppal already explained that in January we completed bar mill at 1.4 million tonnes at Oman. And from March onwards we are going to commence commercial production there which will substantially increase through the EBITDA margins as well as through the overall turnover of Oman. Even otherwise for the quarter Oman on a production numbers, I think the HBI continues to perform at 100% of the capacity utilization. But the notable improvements are in the steel melt shop as compared to last year we have production increase by almost 3 times and the sales also going up in that number. So Oman continues to perform quite well. The only problem which is being witnessed all across is that realizations are down. And so obviously to that extent there is an EBITDA decrease as compared to what was there in the same period last year. But Oman continues to be sort of doing well on an overall basis.

South Africa again we are doing almost the same levels that we've done in the previous year. Selling prices on a coal and anthracite coal side seem to have bottomed out. So this quarter we've not seen any reduction in the prices there. And the operations continue to be quite normal. Australia where we got the revised approval for the Wollongong Coal, we've already got that for a 5 year period. The New South Wales government has given us the approval for operating the Wongawilli Mine for another 5 years. We are now recommencing the operations there in another couple of weeks' time. And Russell Vale continues to be under care and maintenance with expected environment approval for operating that mine probably coming towards the end of this quarter. So on an overall basis, we've been saying in our endeavor to continue to reduce the costs in Australian operations, we have now cut down the number of people from 453 to around 74 people already whom we have in our Australian operations. And I think the main focus in all the businesses is to improve. Because NSR, the net sales realization is what is not in our control. But what we are trying to do is put more emphasis on the cost reductions as well as the efficiencies in the various wherever we can. And this all has helped us come out with much more efficient operations at all our units as well as reduction in the cost numbers.

MR. BALA – GROUP HEAD INVESTOR RELATIONS, JSPL:

Okay. We now request the participants to kindly ask their questions.

MODERATOR:

Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. Anyone who wishes to ask a question may press * and 1 on your touch tone phone. If you wish to remove yourself from the question queue you may press & and 2. Participants are requested to only use handsets while asking a question. Ladies and gentlemen we will wait for a moment while the question queue assembles.

We will take the first question from the line of Atul Tiwari from Citigroup. Please go ahead.

MR. ATUL TIWARI – CITIGROUP:

Yeah hello sir. Sir I have two questions. My first question is on some of the efforts that the company is making to reduce the conversion cost. It was briefly mentioned in your briefing but if you could share what are some of the initiatives and what are some of the quantitative targets that we should look forward to. And as well as, you know, some of the efforts being made to reduce the working capital. We know that it has already come down in this quarter which is great. But can we see a more reduction and some incremental cash flows from there. So that is my first question on the cost reduction. And my second question is on production and sales of steel India business which has remained at about 0.75 million tonnes per quarter. And we have substantial capacities. So why is it not going up? Or when should we expect this volume to go up?

MR. RAVI UPPAL – MD & GROUP CEO, JSPL:

Okay let me take the second question first. As you know the demand in the domestic market has been quite tepid. You know I mentioned earlier that the domestic demand grew only by 4% with imports eating into the market more. But if you look at our sales in the domestic market, it has been sort of outperforming the market. But we have to tread this very cautiously because you have to keep in view the net sales price. Since the sales prices have been under pressure, we have been taking these opportunities very carefully, very cautiously. Now that MIP has kicked in, and already now we see the upward movement of price has started, so we have been a lot more aggressive in reaching out to opportunities in the market. And hopefully we will post better volumes in the fourth quarter. That is the second question that you asked.

The first question relating to how are you reducing the conversion costs, in the conversion costs there are several factors, which come into play. The number one is what is the specific material consumption that you do of various elements that you use. Whether it is the iron ore, the coal, the limestone or various elements, which go into making iron and steel. We are highly focused on that. And the second important factor is about electricity. Power is a major cost. And there again we have done some very novel changes in our system. For example we have in Raigarh, we have introduced the concept of converting our normal electrical arc furnace into basic oxygen furnace, where we do the lancing with oxygen. And we don't have to use electrical power. For this the total power consumption has been saved to the extent of 50 megawatt. So you know the power consumption has come down and we are going to do the same for other places also. So you know the whole host of factors around cost review that earlier we used to review once a month. Now with the online data feeding we are reviewing the costs of productions and cost of conversion on a weekly basis. And all the measures are taken to see that we remain on top of the conversion cost. I am happy to acknowledge that the conversion costs have actually come down, and even the cost of production of steel as well as the products from the mills and we have really achieved a good measure. This is something which has partially helped us to meet the challenge of prices in the market. So you know it's an all round effort. And as far as working capital is concerned, we have adopted a credit policy, which is more strict compared to what we used to have earlier. We have reduced the credit limits of any major institutional customer who used to get it, because most of them we actually supply cash against goods. But even those big institutional customers, we have reduced their limits. And I am happy to tell you that our receivables have come in the last quarter down by more than 170 crores. And the overdue payments have especially come down. They have come to a trickle now. And by the end of quarter 4, it is our target that we will completely eliminate the overdue payments.

Moving on to the inventories, inventories have been a bigger challenge given that the market was very fluctuating and the demand was also consequently fluctuating. The liquidity position in the market was tight. So it has some adverse impact on that. But the direction of the inventories is absolutely set. We have cut down the inventories of all raw materials whether it is coal, iron ore, pellets. And we have also cut down the inventories of semi-finished goods and finally the finished goods. So our target is that by the end of this year we should have total inventory in the system which is less than 300,000 tonnes. So this will unlock a lot of capital which gets locked up in the working capital. And I think we seem to be moving around that.

MR. ATUL TIWARI – CITIGROUP:

Okay thank you sir, thanks a lot.

MODERATOR:

Thank you. We will take the next question from the line of Sumangal Nevatia from Macquarie. Please go ahead.

SUMANGAL NEVATIA - MACQUARIE:

Yeah good afternoon sir. Thanks for the opportunity. Firstly congratulations to the team on a strong order book in the construction segment. Sir my first question is with regards to the international business. Sir the international business profitability appears to have reduced dramatically in this quarter if you subtract the consolidated minus the JPL and standalone. Sir if you could just provide some ebidta numbers of Shadeed and Australia and other businesses for the quarter it will be helpful.

MR. RAJESH BHATIA – CEO GLOBAL BUSINESS, JSPL:

Because as Ravi said that Shadeed also the ebidta has come down because of the form in the realization. And Australia because we have put the mine under the care and maintenance, and there is nothing that we are producing there currently. So there continues to be operating expenses to maintain the mines and all that. So they continue to impact us on an ebidta level. On an overall basis I can say that Shadeed in the previous quarter had an ebidta of \$17 million and this quarter it is about 7. So that's a major fall. Rest everything is more or less in line with the previous quarter.

SUMANGAL NEVATIA - MACQUARIE:

But you said it will go up now...

MR. RAJESH BHATIA – CEO GLOBAL BUSINESS, JSPL:

Yes. So now with the start of the rolling mill, I think the differential pricing between the two quarters is about \$85. And the cost is about \$25, so that will give us the additional ebidta once we commercially start operating the rolling mill.

SUMANGAL NEVATIA - MACQUARIE:

Understood. Alright. Sir second question is with regards to the PLF in JPL. Now it still remains weak around 42% and we will be commissioning the last 600 megawatts. Now I understand that PPA is coming from UP. But what is your view on how PLF can shape up in FY17 and 18?

MR. RAVI UPPAL – MD & GROUP CEO, JSPL:

I think the PLF should improve. My personal take is that we had taken one contract in Kerala, and the contract was supposed to supply 200 megawatt starting from October 2016. But the government of Kerala has told us to supply already from May. So I think that 200 megawatt under PPA will come, and followed by another 150 megawatt by the end of the year. We are in the process of discussing, taking other blocked supply from other private customers at this moment. And I am hoping that before the end of this quarter, pretty good deal for about 200-250 megawatt will also be signed which will be a medium term contract for supply of power. So we are right now also participating in tenders for UP as well as Bihar. But I must tell you that JSPL is very circumspect before it signs any sort of agreement, long term agreement. We are very mindful of the returns and that is something which guides any new commitment that we take for a long term power supply. But on the whole I do hope that these things will improve.

The good news is that the coal rates prices have come down quite substantially compared to the previous quarters. When we started this financial year we had to buy the coal from the mines and it was a new process. The government was also not well geared up. The quantities offered were small in the auctions and the rates were much higher. But the good news is that the rates have really softened, they have come down, and coal is available in plenty at the moment. So what we need is basically PPA to deliver, otherwise coal is not an issue. The cost has come down which will also further improve the ebidta levels. And that is what Mr.

Rajagopal was saying minutes ago that ebidta level at this quarter 3 was better than the ebidta level in Q2. And hopefully Q4 should be better than Q3.

SUMANGAL NEVATIA - MACQUARIE:

Understood. So in FY17 is it fair to assume that we can expect 70-75% PLF on overall 3400.

MR. RAVI UPPAL – MD & GROUP CEO, JSPL:

We are working at it. All eyes are set on that. But the JSPL policy is that if we find that the rates are not good enough, we rather not do it than to sort of sell the power at a loss. We have that kind of golden rule.

SUMANGAL NEVATIA - MACQUARIE:

Okay and sir is it possible to quantify how the coal prices have moved in the e-auction?

MR. RAVI UPPAL – MD & GROUP CEO, JSPL:

Well broadly I can tell you that in the first quarter when we were buying the coal in auction, it was coming approximately, -- don't get me to swear on those numbers, it is just indicative – here the coal cost was coming to something like 0.85 to 0.9 per Giga kilo calorie. And now the rates have come down to a level of anywhere between 0.6 to 0.65.

SUMANGAL NEVATIA - MACQUARIE:

Understood. Alright sir, I have a few more questions. I will get back in the queue. Thanks and all the best sir.

MR. RAVI UPPAL – MD & GROUP CEO, JSPL:

Thank you.

MODERATOR:

Thank you. We will take the next question from the line of Bhavesh Chauhan from Florin Tree Advisors. Please go ahead.

MR. BHAVESH CHAUHAN – FLORIN TREE ADVISORS:

Hello sir, I have one question on MIP, now that the MIP has come in, given the tepid demand conditions, how much of a price hike are you likely to take? Or have you ever taken some hike already?

MR. RAVI UPPAL – MD & GROUP CEO, JSPL:

Well we have already taken some hike, a very modest hike. As I said earlier in my comments that we are very sensitive to our customers, their needs as well. So we don't want to do a big step change. But the direction is set. We will gradually increase the prices to a level that is a sustainable price level. But we have already sort of done some increase.

MR. BHAVESH CHAUHAN – FLORIN TREE ADVISORS:

Okay. And my second question is on Tamnar Power II where you said in your remarks that rains and non-availability of transmission lines had disrupted the PLFs. So has that situation reversed and now you do not have any constraints?

MR. RAVI UPPAL – MD & GROUP CEO, JSPL:

You know that was actually in the month of November which was part of Q3 when we had serious disruption of supply to Tamil Nadu. Because all the lines were suspended and Tamil Nadu had stopped taking the power, nearly 200 megawatt in the month of December. It did affect us but things are back to normal. Tamil Nadu is drawing full 400 megawatt from us right now. Even for the medium contract which was suspended by them, they are coming back to us and they said by the end of this month they will start drawing even on the medium term contract.

MR. BHAVESH CHAUHAN – FLORIN TREE ADVISORS:

Sir the Tamnar Power-II should be operating at higher than 30-35% utilizations?

MR. RAVI UPPAL – MD & GROUP CEO, JSPL:

Yeah, that is what I said. You know what restrained the phase one, which is EUP-I which is 4 X 250 megawatt, where we are regularly running all the three machines out of 4, your PLF had improved from 60% last quarter to over 70%. But in EUP-II where you have a 600 megawatt machine, we are very careful in running that machine unless we have a good flow we don't normally run. And therefore in the peak of winter in middle of November to end of December, since the demand was not much so we did not run the 600 megawatt units to the capacity that we normally do. Instead of two units we ran only one. That is why you see a capacity utilization which was only about 30%.

MR. BHAVESH CHAUHAN – FLORIN TREE ADVISORS:

Okay thank you sir, that's all from my side.

MODERATOR:

Thank you. We will take the next question from the line of Pinakin Parekh from JP Morgan. Please go ahead.

MR. PINAKIN PAREKH – JP MORGAN:

Thank you very much sir. My first question is on the balance sheet. Sir can you share the net debt number on a consolidated basis this quarter? And given that the ebidta was lower than the interest, I mean ebidta will improve from here but there would be some maintenance capex that would also be required working capital. How much should the net debt increase from current levels?

MR. K. RAJAGOPAL – CFO DESIGNATE, JSPL:

See our net debt is about – it has to remain at the same level as last quarter. It is about 46000 crores and for the last quarter it was about 45920 crores. More or less remains same.

MR. RAVI UPPAL – MD & GROUP CEO, JSPL:

You know basically as I mentioned that we have completed the Oman mill and we have advanced the completion of the Angul mill which we started 2 years ago. So there was some completion expense and some care and maintenance of existing assets. So there it was very marginal sort of expenditure on capital account. Virtually nothing.

MR. PINAKIN PAREKH – JP MORGAN:

Sure sir. And sir can you give us a sense of the utilization of the company's plate mill and how it is spending. And what are the essential issues that the company is facing in terms of ramping up utilization? Is it demand? Is it cheap imports? Or is it a combination of both of them?

MR. RAVI UPPAL – MD & GROUP CEO, JSPL:

It's a good question let me try to answer it. You know that we are manufacturing plates in more than 1 location. One of them is Raigarh, the second one is Angul. Angul is producing our special grade, high grade plates. Commercial and low grade plates are produced at Raigarh. Raigarh mill - we have taken a shut down starting from early December, because we are completely upgrading this to the modern technology. This has already been completed now in the middle of January and this mill is fully there with enhanced capacity. Now it can do 3 meter wide plates. We have introduced a very high level of automation in this mill. And we do see that the total productivity of this mill should really go up immensely. In Angul last quarter if you noticed we did quite well. We reached almost a 100000 tonnes of DRI production and steel melt shop production in the month of December. And that level of success is sustaining. And we went to the level of producing about 50000 tonnes of plates from Angul in the month of December, which is going to go up now, now that MIP is there. I must tell you that the plate segment was very badly affected by the absolutely uncontrolled imports of coils and plates of Korea and China. But now that government has put a price of \$500 on the coils, and \$550 for the plates, we do see that these imports will plummet very soon and that will allow us to use this capacity to a higher degree.

MR. PINAKIN PAREKH – JP MORGAN:

Thank you. And sir just one quick question. Can you give us a sense of the cost of production of sponge iron at Angul and Raigarh as of December quarter?

MR. RAVI UPPAL – MD & GROUP CEO, JSPL:

I don't have the numbers handy with me. It is relating to a product. But I can answer you offline. I will tell Mr. Balasubramanyam to give you an answer on this one.

MR. PINAKIN PAREKH – JP MORGAN:

Okay thank you very much sir.

MODERATOR:

Thank you. We will take the next question from the line of Ravi Shankar from Credit Suisse. Please go ahead.

MR. RAVI SHANKAR - CREDIT SUISSE:

Yeah hi sir good evening. Wanted to check two questions. One is on the inventory. So sales on the standalone have been lower than production. So the inventory would have added. Now I gathered there was a 300,000 number that you said that is the target.

MR. RAVI UPPAL – MD & GROUP CEO, JSPL:

This is for the fourth quarter, yeah.

MR. RAVI SHANKAR - CREDIT SUISSE:

That is the fourth quarter. And how much was the inventory increase during the quarter? Because the accretion to inventory on the P&L should have been a negative entry. It is not the case.

MR. RAVI UPPAL – MD & GROUP CEO, JSPL:

I am sorry I am just asking my colleague. I don't have the number ready. I am just going to give you that. Yeah the inventory we have from the start of the quarter on 1st of October to 31st of December actually came down.

MR. RAVI SHANKAR - CREDIT SUISSE:

Okay that fits. It came down.

MR. RAVI UPPAL – MD & GROUP CEO, JSPL:

We are very deeply focused on the working capital management, which includes both entry and receivables. And thankfully we have had a good measure of success.

MR. RAVI SHANKAR - CREDIT SUISSE:

And sir how much of the working capital decline of the 1200 crores came in the last quarter?

MR. RAVI UPPAL – MD & GROUP CEO, JSPL:

Yeah. So the working capital went down by 1200 crores.

MR. RAVI SHANKAR FROM CREDIT SUISSE:

That is for the 9 months right?

MR. RAVI UPPAL – MD & GROUP CEO, JSPL:

No, no, no, last quarter. Q2 versus Q3, the working capital reduced by 1200 crores.

MR. RAVI SHANKAR FROM CREDIT SUISSE:

Okay.

MR. RAVI UPPAL – MD & GROUP CEO, JSPL:

Inventories went down and receivables went down.

MR. K. RAJAGOPAL – CFO DESIGNATE, JSPL:

That's why we were able to manage despite our ebidta is less and so that is an important contribution from what we have managed.

MR. RAVI SHANKAR - CREDIT SUISSE:

Okay. And lastly sir what was the capex then during the quarter and the maintenance capex henceforth?

MR. RAVI UPPAL – MD & GROUP CEO, JSPL:

As Mr. Rajagopal said earlier, it is a very small capex. Lot of it is for care and maintenance for existing plant. And small part of it is completion expense for the Angul and the Oman mill where we are paying to the experts and commissioning engineers. So it is a relatively small amount .

MR. RAVI SHANKAR - CREDIT SUISSE:

Okay. Thank you sir. That's all from my end.

MODERATOR:

Thank you. We will take the next question from the line of Sanjay Jain from Motilal Oswal Securities. Please go ahead.

MR. SANJAY JAIN – MOTILAL OSWAL SECURITIES:

Hi thanks for taking my question. I want to understand one thing. The line item that we report, sale of steel to the internals, it's about 232 crores.

MR. K. RAJAGOPAL – CFO DESIGNATE, JSPL:

Yeah that is captive because the steel we are using in our construction of our own plant, used in our captive consumption. That is where we build our own capital equipment in our projects. So that is shown as reduction from this one and shown as a separate item as a captive item. So that it does not reflect in our sales. Our sales have reported net sales. Even when we issue the steel to the project so that you have to account in a proper way, so that is accounted and issued on how much we consume towards our own captive.

MR. SANJAY JAIN – MOTILAL OSWAL SECURITIES:

So should I understand these are towards capex or not towards the capex. I mean the projects you said...

MR. K. RAJAGOPAL – CFO DESIGNATE, JSPL:

It is capital work in progress.

MR. RAVI UPPAL – MD & GROUP CEO, JSPL:

It is capital work in progress. And also some products are sold to internal divisions.

MR. SANJAY JAIN – MOTILAL OSWAL SECURITIES:

Yeah but you said that capex during the quarter was a very low number I mean I am just wondering that the capex is coming down but this captive sales is not coming down. So where is it going?

MR. K. RAJAGOPAL – CFO DESIGNATE, JSPL:

See what we have mentioned is the cash we have spent. So this is coming from our raw material purchase and from that it is going. So you can account like that. So it is a technical question.

MR. RAJESH BHATIA – CEO GLOBAL BUSINESS, JSPL:

So what he is saying is that the capex is small in magnitude..

MR. K. RAJAGOPAL – CFO DESIGNATE, JSPL:

What I am saying what we have really spent as a cash, and this is coming from our material. Because normal expenditure coming from raw material and other things. So from that we take out and use it. This will go in capital work in progress finally.

MR. SANJAY JAIN – MOTILAL OSWAL SECURITIES:

Okay got it. and can you break down Jindal Power's sales between long term and short term like what was the – I was actually surprised that volumes haven't gone up despite the fact that long time supply to Tamil Nadu has started. So we must have lost....

MR. RAVI UPPAL – MD & GROUP CEO, JSPL:

Yeah I mentioned to you that in the month of November due to the heavy rains a lot of our power to Tamil Nadu where we are supplying 400 plus 200 megawatts, they were disrupted. They were not able to get the off take of power. The whole system has broken down. It took them a while to get the whole internal system restored. So there was a sort of disruption on that one. So but on the other hand this being the winter period, the on take of power is generally less compared to the other quarters when the summer quarter, like from February-March, the demands are going up because the southern states picked up on temperature much earlier than the northern and eastern states. So you will see an uptake and demand for power starting from early March.

MR. SANJAY JAIN – MOTILAL OSWAL SECURITIES:

I see. So the March quarter also we should see similar volumes.

MR. RAVI UPPAL – MD & GROUP CEO, JSPL:

Because January-February, the weather is very moderate, but from March it starts to look up. Because the western part of the country, the southern part, the temperature picked up rather early from March.

MR. SANJAY JAIN – MOTILAL OSWAL SECURITIES:

Do you have a break up of this volume?

MR. RAVI UPPAL – MD & GROUP CEO, JSPL:

I don't have it handy with me. I think offline we can give it to you. It is not an issue.

MR. SANJAY JAIN – MOTILAL OSWAL SECURITIES:

Okay secondly just one more thing....it was asked earlier in one of the questions. I wanted to understand more on the steel. You mentioned that because of the market condition, we toned down the production. But I was just wondering that in a difficult market situation if we tone down our production our fixed costs per unit actually goes down.

MR. RAVI UPPAL – MD & GROUP CEO, JSPL:

I think you got it slightly wrong. I did not say that we toned down. We are not reducing the volume compared to what we used to have. I basically said that our volume has gone up.

MR. SANJAY JAIN – MOTILAL OSWAL SECURITIES:

Yeah but sequentially like you know first quarter was the best, and second is reduction and third is even lower. From

MR. RAVI UPPAL – MD & GROUP CEO, JSPL:

You are talking about the magnitude of growth.

MR. SANJAY JAIN – MOTILAL OSWAL SECURITIES:

So where are you....see I look at the total production. Like so where is the – which is producing less, which is producing more? If you give us a clear between the two plants, Angul andif there is a breakup between the two if you could share then it would be useful.

MR. RAVI UPPAL – MD & GROUP CEO, JSPL:

You want the sales of Angul and...

MR. SANJAY JAIN – MOTILAL OSWAL SECURITIES:

Production, not sales....

MR. K. RAJAGOPAL – CFO DESIGNATE, JSPL:

That we can get from...

MR. RAVI UPPAL – MD & GROUP CEO, JSPL:

You know all these details are readily available. We are not equipped as of this moment to go into the drill down. But you are most welcome to talk to our investor relations, they have all the details. You know Mr. Balasubramanyam sitting here I will ask him to pass on this information to you.

MR. SANJAY JAIN – MOTILAL OSWAL SECURITIES:

Okay thank you.

MODERATOR:

Thank you. We will take the next question from the line of Anshuman Dey from ICICI Securities. Please go ahead.

ANSHUMAN DEY - ICICI SECURITIES:

Hello. Thanks for the opportunity sir I have three questions. One is regarding the post MIP implementation as far as our product mix is concerned, which are the segments you think can offer the maximum head room for a price increase from a JSPL point of view? And second is regarding our overseas subsidiary performance, if I take out the performance for Oman now what kind of improvement can we factor in the ebidta let's say in the next 9 months or next 1 year from the ex-Oman? And the third question is regarding the asset sales, we had some news regarding proposed power asset sales so could you throw some light on that?

MR. RAVI UPPAL – MD & GROUP CEO, JSPL:

Okay let me take the first question first. When it comes to increasing the prices of the MIP our effort is to sort of have this increased across all the commodities, whether it is plates or coils or TMT, wire rod across all of them. But the magnitude of increase that we are giving to the market is enormous depending on the market conditions and the demand pull. So this increase is being passed on across the commodities. All the way from semi finished steel, which is basically rounds, billets, all the way to the fully finished plates coils and structures and the angles, wire rod etc. That is the first point. The second point that you asked was about...

ANSHUMAN DEY - ICICI SECURITIES:

The overseas subsidiary performance.

MR. RAVI UPPAL – MD & GROUP CEO, JSPL:

The overseas subsidiary performance, Mr. Bhatia shared with you that the Oman ebidta, South Africa ebidta, both of them are positive, they are stable. Although the Oman ebidta has come down in view of the dropping international prices. But with the rolling mill having got commissioned early January, we do expect that for every tonne of steel that we sell, we will get another additional \$50 for turnover ebidta at this quarter. So the plant is coming into commercial production step by step. So hopefully it will have a good amount of production in the month of March. So this will help us recover our ebidta level for Oman. We are making efforts to also improve the ebidta levels in South Africa where we produce Anthracite. And I am quite optimistic in this quarter which is just setting in. We will have a good performance reported on South Africa. So Australia the commercial production is going to start in the month of March. We have got the permits and permissions. So hopefully that will also give us better results than previously when the mining activity was suspended.

ANSHUMAN DEY - ICICI SECURITIES:

Thank you.

MR. RAVI UPPAL – MD & GROUP CEO, JSPL:

And the last question on power asset sales. Yes as we mentioned to you earlier, that it is not only power assets but few other assets which we are investigating the possibility of selling them. And so multiple initiatives are under way so as soon as any concrete progress takes place we will share that with you.

ANSHUMAN DEY - ICICI SECURITIES:

Okay thanks a lot sir.

MODERATOR:

Thank you. We will take the last two questions. So first question we will take from the line of Nitesh Jain from Axis Capital. Please go ahead.

MR. NITESH JAIN – AXIS CAPITAL:

Hi sir, can you share like so far what is the cumulative investment in all our overseas operations other than Shadedee? This is my first question.

MR. K. RAJAGOPAL – CFO DESIGNATE, JSPL:

Yeah. Our investments in overseas operations are about 2 billion dollars.

MR. NITESH JAIN – AXIS CAPITAL:

\$ 2 billion. Okay. And secondly can you share what was the capacity utilization in Q3, in 1.8 tonne DRI unit in Angul?

MR. RAVI UPPAL – MD & GROUP CEO, JSPL:

DRI Unit was done very well. I would say that it was almost at 80%. I mentioned to you earlier that we had a record production in the month of December in DRI Angul. We produced in that month 115,000 tonnes of DRI.

MR. NITESH JAIN – AXIS CAPITAL:

Sure. And lastly sir what is the current iron ore sourcing in our Raigarh unit as far as steel is concerned?

MR. RAVI UPPAL – MD & GROUP CEO, JSPL:

As you know that we have one mine, Tensa mine, from where the pellets that we produce all of them are basically sent to Raigarh plant. And there they mix out of it. And then we are buying the rest of the requirement from the open market. There are a lot of miners around us in Angul and Barbil areas. And we buy the iron ore from them at local rates. I must tell you the iron fines prices have also been suffering in the recent months which once again is proving to be a big help in controlling the cost of production.

MR. NITESH JAIN – AXIS CAPITAL:

Okay. And Tensa will be how much of the total requirement of Raigarh?

MR. RAVI UPPAL – MD & GROUP CEO, JSPL:

Tensa Mine produces 3 million tonnes annually which is 250,000 tonnes per month. So I would say that for Raigarh it is about 80% of their sinter requirement as sinter is nearly 65% of the total requirement. The rest of them are lumps and pellets.

MR. NITESH JAIN – AXIS CAPITAL:

Sure sir thanks a lot.

MODERATOR:

Thank you.

MR. RAVI UPPAL – MD & GROUP CEO, JSPL:

Can we have the last question please?

MODERATOR:

Yes we are taking the last question from the line of Vikas Garg from L&T Mutual Funds. Please go ahead.

MR. VIKAS GARG – L&T MUTUAL FUNDS:

Thanks for taking my question. I want to just look at the debt number of 46000 crores and put it in perspective of the ebidta that we are making. I fully understand the industry dynamics are quite challenging. But from your perspective sir what would be the whole sustainable debt levels given the current state of dynamics which we are in that you would have? And what will be the steps taken to reduce the debt levels to more sustainable level in a what kind of timeframe sir?

MR. RAVI UPPAL – MD & GROUP CEO, JSPL:

One thing is clear that we are absolutely clear to bring down the debt level. Because we don't think that we would like to continue at this level. So all efforts are being made by way of divestment of some assets selectively how we could create liquidity and we could reduce the extent of debt. So there are as I mentioned earlier several initiatives underway. And I am hoping that in the near future we will succeed with some of them.

MR. VIKAS GARG – L&T MUTUAL FUNDS:

Okay sir. Sir two more things. One is on the breakup of debt in JSPL standalone and JPL standalone. What would be those numbers? And secondly sir in the last call you indicated that JPL has already got a 5/25 scheme approved by the banks. How would be the status for the JSPL as of now sir?

MR. K. RAJAGOPAL – CFO DESIGNATE, JSPL:

It is in discussion.

MR. RAVI UPPAL – MD & GROUP CEO, JSPL:

JPL is already over.

MR. VIKAS GARG – L&T MUTUAL FUNDS:

Yes sir. And split of the debt in JSPL and JPL level?

MR. K. RAJAGOPAL – CFO DESIGNATE, JSPL:

Debt in globally as I told you is I think about \$2 billion. Between JSPL and JPL I am not very clear. 6000 is JPL. About 28000 is JSPL.

MR. RAVI UPPAL – MD & GROUP CEO, JSPL:

12 for global.

MR. K. RAJAGOPAL – CFO DESIGNATE, JSPL:

Yeah.

MR. VIKAS GARG – L&T MUTUAL FUNDS:

Okay sir thank you very much.

MODERATOR:

Thank you. Ladies and gentlemen due to the time constraints that was the last question. I now hand the conference over to Mr. Kamlesh Bagmar for closing comments.

MR. KAMLESH BAGMAR - PRABHUDAS LILLADHER PRIVATE LIMITED:

Yeah I thank all the participants for their participation in the call. And I hand over the call to the management for their closing remarks.

MR. RAVI UPPAL – MD & GROUP CEO, JSPL:

We have already had an elaborate presentation on the results. The detailed results are there with you. And I have tried to and my colleagues have tried to give you more inputs which are not normally in the press release we do. And at any time any one of you want to get more information, please feel free to contact our investor relation department. And we will also have with you one to one meeting or a group meet at JSPL. At any time we will be happy to share any information that you want to know. But I want to tell you that we remain internally very strong and robust. It is unfortunate that the whole Indian steel industry had to go through such a pressure test during the last 1 year in particular. So but I am sure that things are going to look up now, and the government is also reminded constantly about the need to stimulate the demand and at the same time give us a continued benefit of MIP and I am



sure with a combination of these two we will naturally see the fortunes of the steel industry turn once again. We are working 24X7 to see how the company's operations can be turned around. And I am quite sanguine that if this continues that not long before you hear this from us that the business has turned around. Thank you very much for joining.

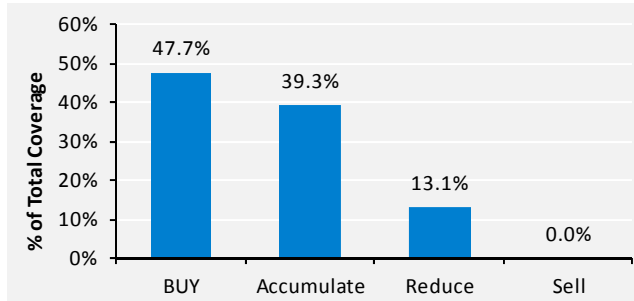
MODERATOR:

Thank you. Ladies and gentlemen on behalf of Prabhudas Lilladher that concludes this conference. Thank you for joining us. You may now disconnect your lines.

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