



“Jindal Steel & Power Limited 3Q FY 2017 Conference  
Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to the Jindal Steel & Power Limited 3Q FY 2017 Conference Call hosted by Motilal Oswal Securities. As a reminder, all participant lines will be in the listen-only mode, 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 touchtone phone. Please note that this conference is being recorded.

I would like to hand the conference over to Mr. Sanjay Jain from Motilal Oswal Securities. Thank you and over to you, sir.

**Nishant Baranwal:** Yes, thank you. On behalf of Motilal Oswal, I welcome you all on to this call. Today we have with us the senior management of JSPL to discuss the quarterly results and the key developments.

Now, I hand over the call to Nishant -- Head of Investor Relations. He will introduce the management and then we will have address from the management. Over to you, Nishant.

**Nishant Baranwal:** Thank you, Sanjay. Good morning, everybody. We welcome you all to our Third Quarter and Nine Month Earnings Call.

Today we have with us our CEO and MD -- Mr. **Ravi Uppal and our CFO – Mr Rajesh Bhatia**

To begin the call I would pass on the call for opening remarks to Mr. Uppal. Mr. Uppal, please.

**Ravi Uppal:** Good morning, ladies and gentlemen. Thank you for joining us during this Analyst Call. I am indeed very happy to talk to you about the highlights of the results that we announced yesterday. I suppose every one of you has a copy of the results that we circulated yesterday.

It is my great pleasure to tell you that the Q3 results have basically marked a turnaround of JSPL. As you know that this Company was one of the best performing companies up to 2014 and we were actually the bellwether of the steel industry in the country. But thereafter, the setbacks that we have gone through, for reasons external to us, had put a huge challenge before us.

I am very happy to inform you that JSPL has worked their way through in the last two years and the net result of that is evidenced in the Q3 results. So this basically is a turnaround quarter for us. I am very pleased to tell you that the Company has been able to deliver a result which has actually gone beyond our own expectations. You have seen the EBITDA numbers, you have seen the sales turnover, whether you take as JSPL standalone, or you take JSPL consolidated.

The JSPL consolidated sales have gone up by 25% YoY, whereas JSPL standalone sales have gone up by 21% and the EBITDA for the JSPL standalone is at 22% compared to 17% that we had in the previous quarter and the same quarter last year the EBITDA was 14%. And if you talk in terms of overall EBITDA improvement, on a standalone basis, it is up by about 87%; and on a consolidated basis, we are up by about 136%.

So, all-in-all, the performance has come about in a very robust way and our improvement is not confined to one line of business, it is all around, whether it is JSPL standalone, global ventures, or power business. It is not to say that the challenges have disappeared but we are on top of the challenges.

Many of you might have wondered when demonetization took place in November that there is going to be a big setback. It was a setback, but we made sure that we have the right mix of business which will help us to overcome the challenge which was created due to demonetization because it affected among others the construction sector in particular. So, we immediately tuned our sales to the new waves and made sure that our product mix changed immediately and we come on top of the situation and that we do not miss our targeted business volumes

In our overseas operations, I am happy to tell you that our Oman unit once again has proved that it is a jewel in our crown. The EBITDA levels have increased three-fold in the third quarter. Our mines in Australia have kicked into action. We have resumed our activity there in the month of September and we produced more than 100,000 tonnes of coking coal there.

Likewise, in Mozambique, the mine has zoomed into action and we have taken some galloping steps to see that the production ramp-up takes place and that mine is also delivering.

So, the good news is that from Australia, Mozambique, South Africa, where the activities were suspended last year due to fall in demand and very low prices, all of them have delivered us a positive EBITDA in the third quarter.

Coming on the home front, in the power business, there of course the challenge continues. The demand for power has not picked up, which we all really hoped for. We have been very selective when it comes to catering to the power business where there are two loads, in particular which we are catering to. One of them is the load under PPAs and the second one, which is through bilateral agreement for supply. We have been shunning supply to the national exchange because the rates were low. So, therefore, JPL has adopted an approach which is very selective in meeting loads and the net result of it is that our EBITDA has gone up as you have seen to the level of 35%.

Still our capacity remains underutilized. As you know that we have got a world class plant of 3,400 megawatt at Tamnar. Right now we are running to a capacity between 1,350 megawatt

to 1,600 megawatt and in the months to come, I am happy to tell you some more PPAs are going to become operational. So, we are really hoping that our capacity utilization will increase. But we do hope that the government and the DISCOMs, or state electricity boards will come with more tenders for the medium-term and the long-term PPAs.

So with that happening, JSPL is all ready to deliver power. Our fourth unit also got COD tested in the last quarter. So, now we have all the units up and ready to deliver the power and the plant continues to perform at phenomenal levels.

What has been contributing to increasing the power apart from very selective delivery of power, is that we have made massive efforts to reduce the cost of fuel and we have succeeded to a great measure on that and our efforts continue to reduce the cost of fuel further. There we also are looking at our operational parameter slide, auxiliary power consumption. We have succeeded to bring down the auxiliary power consumption to the lowest level since we commissioned the unit. So it is a sum combination of various factors that we have taken resolve to improving the EBITDA.

I am happy to tell you that our EBITDA level right now is among the best which has been delivered by the power industry.

Coming back to the steel, I am sure that some of you must be wondering how come that JSPL has taken such a leapfrog in the EBITDA levels. But it is a culmination of three factors which was a part of our strategy. Number one ramp up the volume of how much we deliver. Number two was that we went about improving the net sales realization. We have moved into a product mix, which gives us a better realization. For example, we focused lot more on rails, we have focused a lot more on structures, high grade plates, rather than going to commercial grades and getting into a war of competition. So we have a very selective approach when it comes to business mix and third, which is very important is that we have also focused a lot on reducing our cost of production by resorting to a lot of operation excellence measures.

One of the steps that we took was managing our working capital. I am happy to tell you that from the start of this year, our working capital, both receivables as well as the inventories put together, we have been able to break it down by Rs. 725 crores compared to what it was in April 2016 and this effort continues incessantly. There is no sort of let up in the effort and I just was looking back that today our working capital is less than half of what it was about two years ago. So, this has helped us to unlock a lot of capital which was stuck in the business and put it to more efficient use.

Another front where we have done very well is basically production and export of pellets. This year our sales of pellets is almost 300%, of what we had last year in the same. The net result is that that pellet has really contributed generously to improvement of our EBITDA levels.

I am happy to tell you that right now we are the largest exporter of pellets in India and the increased production of pellets is also helping us to meet the enhanced requirements of pellets for our production both in Raigarh and Angul.

So the Barbil unit producing pellets has performed magnificently. We are very proud of how we have built up our position on pellets. So, steel, pellets, power, mines and minerals, thanks to the collective efforts of the JSPL team, all of them have performed very well.

As for the outlook for the quarter to come, we remain positive. We think that in Q4 we should be able to do at least as much as we did in Q3, if not better. I also have another happy news to deliver to you. You know that we started the Phase-II of JSPL about three years ago when the demand was very robust and we had every reason to think in terms of adding to our capacity, using a new route of the blast furnace. In spite of various challenges, we just went on to complete it and now we are very close to the finishing line. We are very optimistic that we should be able to complete our blast furnace which is going to be the country's largest blast furnace and our Sinter plant, which once again is going to be the largest Sinter plant in the country by end of March, or at the very latest by end of April. So that is going to give us a big boost to our total production capacity.

Right now, the production capacity that we have built up at Angul as you know is about 2 million tonnes using the DRI route and the blast furnace which gets commissioned, it is capable of producing hot metal to the extent of 3.5 million tonnes to 4 million tonnes. So all put together when all the various units of Angul get completed we will have the largest steel plant of Odisha up and ready with a capacity of about 5.5 million tonnes to 6 million tonnes.

Of course, the total production out of this blast furnace and the new set up will gradually increase, it is not going to increase in one shot. But this definitely is a short in our arm. We will enhance our delivery capacity & production capacity next year substantially. In spite of all the heavy odds and challenges, JSPL remains steadfast in their commitment to complete Angul unit. We are now very close to the finishing line.

So, both in terms of what we delivered and the capability to deliver in the coming quarters, we remain at a very strong position. We are very happy that we are gradually coming out of the woods, the challenges that we suffered in the last two years for reasons which were external to us. But this has proved the tenacity of our Company, it has shown our resilience and today, having gone through the crisis, we have been able to address many areas which perhaps we would not have paid so much attention in the normal case. But now that we had to face certain challenges imposed by external conditions we have braved all these things and our operational efficiency has touched an all-time new high.

I feel privileged that I have a chance to speak to you about the good performance of the Company which is the best out of the last 7-8 quarters. I am quite optimistic, that we will

continue to deliver to you a performance which is even better than what we have been able to give to you for the third quarter. Thank you.

I have my colleague, our Chief Financial Officer – Mr. Rajesh Bhatia and he would also like to speak to you and give his own comments on the performance.

**Rajesh Bhatia:**

Thank you and welcome everybody on the call. And I think Mr. Uppal summed it up really well that this has been a real turnaround story and this quarter performance which is not only emanating from the work put in by the management in this quarter. But also, last so many quarters where we have been relentlessly working on three aspects, which are the cost reduction, the product mix and all this is an effort put in by the management in going into the very depth of the cost structures, the new SBU concept that we put in place a couple of quarters back which is performing exceedingly well and the people are internally more inclined their roles, clarity, and all that has helped us to perform exceedingly well in this quarter and obviously we have been also helped by the market, the prices improving in the steel markets worldwide, as well as in India and it is all a combined result of the cost reductions, the improved utilizations, particularly on the rail site, on the pellet plant site, where we have performed exceedingly well and like on the pellets, Q-on-Q basis, our production is up 5%, our sales are up 10% and the realization is up about 20% on the pellet site.

Similarly, on the overseas sites, we started the Australian operations, as well as Mozambique operations and they are back in making profits at EBITDA level. It also helps us that during the time when the coking coal prices were very-very turbulent to fall back on our internal resource which means that we have the availability at a higher price but it is all kept within the Group. So the entire profitability of the coking coal being produced by Australia and Mozambique is captured somewhere within the group itself.

What is very worthy of noting is we are selling what we are producing. So, as Mr. Uppal said, that there is a very tight leash on inventory controls and working capital and we have ensured we are able to sell what we produce, so that we do not add on to any inventory. We have got some of the thermal coal linkages which has also helped us reduce the power and the fuel costs and even at our steel operations in Oman there has been a steady ramp-up after we started rolling mill in the month of March this year and Oman has reported on a Q-on-Q basis a higher steel production of 10% and the operating there have also gone up because we have also started using a larger mix of our pellets from India which are much cheaper as compared to the pellets we buy in the international markets.

I am happy to report that for the quarter, we have the second-highest EBITDA per tonne margin next to only Tata Steel which is a result of the relentless effort put in by the management.

The reduction on fixed cost is also another initiative that we have taken and it has been partially achieved in the current quarter, but as we go forward, you will see that our effort to reduce some of our fixed costs start with a zero base budgeting level and see us to question the need to incur each and every cost. I think that will reflect in the next couple of quarters.

The performance today is based largely on two plants; Raigarh and the pellet plant. But I can tell you that from here on, the stage is all set for the big things to come in the next quarter, in the next year, as we complete our Angul expansion project and, produce more than 3 million tonnes in Angul in the next year and then go up to about 3.5 million tonnes subsequently. I think that will be a big differentiator and for all those who track this industry, if you see the JSW performance last year and the JSW performance this year, you will realize that there is only one thing which has mattered, is the increased volume which means not only that they capture a higher market but also the fixed cost per tonne are reduced substantially which puts them in a different bracket altogether. So we, starting with Angul, when we double our volumes with the start of India's biggest and the most efficient blast furnace being put in place we can expect reasonably to do much better in terms of our steel costs. The facilities at Angul be the plate mill or bar mill are the most modern. We can easily take an EBITDA margin of about Rs. 9,000 per tonnes.

So, our net debt levels have almost remained the same despite CAPEX which is ongoing for Angul Phase 1B and we have achieved that through a reduction in our working capital cycle and overall better management of inventory and receivables. So, the net debt figure has not changed very much.

So, I would now hand it over to Nishant ..

**Nishant Baranwal:**

So, we would like to invite questions now. But before we start that a small request. Please refrain from data questions. We here at IR are always there to help you with those. Let us limit our questions to more strategic ones.

**Rajesh Bhatia:**

I will just add one thing that these results also account for about \$21 million of FOREX loss for our Australian operations which are exceptional and it was just that the exchange rate suffered only during that period and it recouped a few days later. So these results account for that write-off of FOREX loss in that which has been recovered in the current quarter.

**Nishant Baranwal:**

We can start with the questions.

**Moderator:**

Sure, thank you very much. We will now begin the Question-and-Answer Session. We have the first question from the line of Ritesh Shah from Investec Capital. Please go ahead.

**Ritesh Shah:** Sir, my first question is on the incremental PPA opportunities. We have put on a slide pertaining to that. So, sir my question is what is the current off take on the PPAs and what are the timelines for the U. P. or Jharkhand PPA to materialize and how do we look at this?

**Ravi Uppal:** Well, let me answer the second part of your question first. For U. P., the tender results were out and now it is for government to take a decision and place the order. I cannot tell you right now as to when the order will be placed because right now the U. P. government is going through a state of election. And your first part of the question, where you are asking about the quantity of PPAs, the PPAs that we are catering to right now is about 850 megawatt, approximately. And I mentioned to you, we are running right now about 1,350 megawatt capacity. The rest of them are basically bilateral agreements and to a lesser extent it is the power that we supply to the national exchange. We are expecting some more PPAs to kick in with the passage of time. For example, we have one PPA starting from 1st of March, delivering 200 megawatt to Kerala State Electricity Board. Then there is another PPA, which is with Kerala State which is for 150 megawatt which has to kick-in in month of October which we are trying to bring forward earlier and then of course, if U. P. comes along, U. P. government has indicated that they have the need of power starting from 1st of April once their summer sets and the load really shoots up. So, I think if all these PPAs come in, so we have an additional requirement of close to about 700 megawatts under PPA. So I can foresee that starting from March gradually the capacity utilization will improve and I think that through the month of May, June, etc., we should be running at least two machines of 600 megawatt and three machines of 250 megawatt which means we should be running close to about 1,950 megawatt. And then, of course, we remain open or very watchful about any more opportunities coming in the PPA space.

**Rajesh Bhatia:** I think the PPA space will get opened up, particularly when the UDAY scheme has seen a successful closure and we have been actively engaging with the people who monitor these and they expect that the distribution companies will start looking at buying more power. It is not that there is no demand, it is just because they do not have the payment capacity and with a substantial portion of their debt getting passed on to the states so they will be more inclined to start buying more power. But as Mr. Uppal said, that 200 megawatt from Kerala, starting 1st March and another 150 megawatt starting in October, which we are trying to prepone are the ones which are already there on the canvas and they just have to be sort of start delivering and U. P., depends on the government formation over there but I think we are very hopeful that U. P. will kick in fast enough and we will have much higher capacity utilization in the power business.

**Ravi Uppal:** I think, Rajesh, there is one thing more I would like to add. I think the Government of India is also talking very actively about taking out of service certain capacity of the old plants which are 50 years to 60 years old, this is about 10,000 megawatt. If that should happen, the supply will get further reduced and the demand for power from the new units will spurt up. So, I think



that is also an upside to the demand and consequentially to the rates of the power both from national exchange, as well as under the PPA agreements.

**Ritesh Shah:** Sir, just a follow-up. You said incremental 700 megawatt, so would this include 200 megawatt and 150 megawatt of Kerala in March, and October. So the balance 350 megawatt, can one expect from U. P.?

**Ravi Uppal:** Yes, I was including in U. P.

**Ritesh Shah:** So, U. P. implied will be around 350 megawatt, would that reading be correct?

**Ravi Uppal:** Yes, 325 megawatt, to be very precise.

**Ritesh Shah:** And sir, what is the realization that one can look at over here?

**Ravi Uppal:** You know that it is different from case-to-case. In case of Kerala, 150 megawatt, it is about Rs. 4.29, in case of U. P. it is about Rs. 3.95 and in case of Kerala which is going to kick in from March 1st is above Rs. 3.

**Ritesh Shah:** That helps a lot. Sir, my second question is on the pellet profitability. Sir, how much was the export volumes during the quarter? Is this number sustainable? And secondly, what is the status on the Sarda mining case?

**Ravi Uppal:** Right now, the export market is really going through its high. The pellet prices are stable and as a matter of fact they are on the increase. As of yesterday, the pellet was being quoted at \$105 FOB. Iron ore, of course, is also firming up. We have been exporting between 250,000 tonnes to 300,000 tonnes of pellets in the recent months and in addition to this, we sell it in domestic market to some of the big steel producers and not to forget, JSPLs own requirement of pellets, which is in the range of about 350,000 tonnes to 375,000 tonnes. The good news is that we have really ramped up our production capacity of pellets. So, we are producing now between 650,000 tonnes to 700,000 tonnes of pellet per month.

**Rajesh Bhatia:** Going by the trends in the FE market, the pellet rates shot up to above \$93 CFR China for 62% fines. So, that only augurs well for the pellet export from India. So, in fact, today the situation is that if we produce more from the pellet plant we have more opportunity to export pellet and get a better realization for the pellet business. So, our whole endeavor is to produce or increase the capacity utilization at the pellet plant and the export opportunity today is quite large. So, we do not have any doubt that whether that is sustainable or not.

**Ritesh Shah:** Okay. Sir, on the profitability side, would it be churning around Rs. 1,000 of EBITDA per tonne?

- Nishant Baranwal:** Sorry, Ritesh, there is a long list that I see. Can you please get back in the queue? We will take the next question.
- Moderator:** Yes. The next question is from the line of Rajesh Lachhani from HSBC. Please go ahead.
- Rajesh Lachhani:** My question is regarding the significant increase in the EBIT for power segment in the standalone. So, it has increased to Rs. 302 crores, so just wanted to understand whether this is sustainable? And my second question is regarding the drop in the interest expense from Rs. 650 crore to Rs. 540 crores for standalone during this quarter. Thanks.
- Ravi Uppal:** Well, let me answer the first and my colleague will answer about the second part. As far as the rates are concerned for the power in JPL, the performance that we delivered is definitely sustainable performance on the EBITDA front. There was a certain amount of recovery from customers on the basis of the fuel cost, another statutory variation that is something that we have got now in the third quarter. It was under discussion with the customer and we were going through procedures and processes to find those claims. So, that has come into the Q3 and you will continue to see a good level of performance on EBITDA front in the quarters to come. Rajesh, if you can answer the...
- Rajesh Bhatia:** The interest cost this quarter on a standalone basis are down because we have completed our 5 by 25 this quarter. So, some of the interest and there is an MCLR reduction also. So, a combined effect of completing our 5 by 25 where we had earlier made a higher provisioning for interest which is taken back in the current quarter coupled with the MCLR reductions being passed on to us, so the overall interest charge is less this quarter.
- Rajesh Luchani:** So, just to follow-on my power your question. So, if you adjust for this recovery that you are talking about in the power, what could be the sustainable level of EBITDA for this on a quarterly basis?
- Ravi Uppal:** We will make every effort to ensure that the level that we have come to is sustained.
- Moderator:** Thank you. The next question is from the line of Kamlesh from Prabhudas Lilladher. Please go ahead.
- Kamlesh:** Sir, my one question on the part of the CAPEX like say, how much we have spent in the nine months so far and what is the plan for FY 2017 and FY 2018?
- Rajesh Bhatia:** So, on the CAPEX side, I think apart from the sustaining CAPEX what we have at all the plants, which could be about Rs. 100 crores per quarter, I think the major CAPEX program that we currently doing is only the Angul Phase 1B project where during the quarter we would have spent about Rs. 600 crores. And we start this blast furnace in March and thereafter, we

will still have some hangover of the liabilities already incurred, but yet to be paid. So, that will come but apart from that there is nothing else, which is on anvil in terms of the CAPEX plans.

**Kamlesh:** Sir, it would be really appreciative if you could quantify the figure for the FY 2018, like how much CAPEX there could be?

**Rajesh Bhatia:** About Rs. 1,500 crores.

**Kamlesh:** Rs. 1,500 crores, inclusive of maintenance and everything on the...

**Rajesh Bhatia:** Everything, all in.

**Kamlesh:** Okay. And sir, lastly, in the case once your blast furnace comes into operation, how much cost reduction could we see in the Angul operations?

**Ravi Uppal:** Cost variation, it depends as to what is the cost of the input materials, the coking coal and other components. But as of this date, as we sit here on 15th of February based on the current prices, I would reckon that our costs should down by at least about Rs. 2,000 per tonne.

**Kamlesh:** For the Angul?

**Ravi Uppal:** Yes, for Angul.

**Moderator:** Thank you. The next question is from the line of Amit Dixit from Edelweiss. Please go ahead.

**Amit Dixit:** My question is that with ramp-up of Angul projects, how much sales volume we can expect in FY 2018?

**Rajesh Bhatia:** I think, for FY 2018 we can expect about 3 million tonnes of production level which is double of what we are currently achieving.

**Ravi Uppal:** Let me give you an overall perspective. You know that this year, our total steel production; Angul, Raigarh, all put together will be in the range of 4.4 million tonnes, I think. Whereas next year that with Angul kicking-in I think we will produce at least about 6 million tonnes. So, there is going to be a quantum leap next year with Angul plant coming in.

**Amit Dixit:** So, this does not include Oman of course?

**Rajesh Bhatia:** No, this does not include Oman.

**Ravi Uppal:** It does not include Oman. This we are talking only what we do in India. So, effectively 50% increase from 4 million tonnes to 6 million tonnes.

- Amit Dixit:** Sure. The second question is a follow-up on the last question that this interest cost reduction that we have seen in this quarter on a standalone, so we can expect the similar levels going ahead?
- Rajesh Bhatia:** No, the next quarter, it will be bit higher but there are certain other MCLR reductions, which are being followed up with the bank. So it will be at the same level if we consider this but without that reduction, it will be slightly higher next quarter.
- Moderator:** Thank you. The next question is from the line of Parthiv Jonsa from NVS Brokerage. Please go ahead.
- Parthiv Jonsa:** My question is based on the follow-up question from the last analyst. I just got a view of the overall steel production. So, can you just throw light on the, what would be the EBITDA per tonne?
- Ravi Uppal:** In this quarter our EBITDA is approximately Rs. 8,100 per tonne.
- Parthiv Jonsa:** Sorry, how much sir?
- Ravi Uppal:** Rs. 8,100 per tonne.
- Parthiv Jonsa:** Okay. And like if you see the prices for the HRC and CRC has gone up in the last couple of months. So, how do you position yourself for the coming quarter?
- Ravi Uppal:** Well, firstly, demand outlook looks pretty good both the domestic and export put together. I must add that we had a very robust performance in exports in the quarter three and in the month of December the exports were nearly 25% of the total sales that we did. So we continue our foray into the export markets with the steel as well as with pellets. So the outlook is quite positive.
- Rajesh Bhatia:** Including the pellet business, the EBITDA is about Rs. 9,300 per tonne. We can say October was better than September, November was better than October, and December was better than November and January is better than December. So, going by that trend there have been a good focus on the costs, the raw material from our indigenous captive coking coal mines is available in much larger quantities so the profits are being captured within the group itself.
- Moderator:** Thank you. The next question is from the line of Ravi Shankar from Credit Suisse. Please go ahead.
- Ravi Shankar:** Two questions, one is on utilization levels. So if we look at the finished capacity and if you were to include the Barbil and Angul we would be somewhere around 6.55 in India. And the current run rate, at least 800 to 880 KT sort of a run rate per quarter would mean 3.4 million tonnes, 3.5 million tonnes of output. So, that is close to 50% utilization levels. Now, is it just a

question of ramping up, so it is a matter of time that this will go up or it has to do with some end demand issues, meaning that there is some capacity set aside for structurals, set aside for rail and so the individual demand dynamics in each of these buckets basically limit our off take?

**Rajesh Bhatia:** I just mentioned to you a while ago that this year our total production of steel is going to be about 4 million tonnes and for the next year, we are targeting 6 million tonnes. So that itself is a 50% growth in terms of output. So, when you set up a plant, the production ramps up gradually. So, we mentioned to you that the new blast furnace will come into commission between end of March and the last week of April. So, therefore, you will see much higher volumes starting from the first quarter of next year.

**Ravi Shankar:** So, for example, even if you were to see this year, if 1.5 million tonne is coming from Angul that means so Raigarh is operating at around 2 million tonnes, is that right?

**Rajesh Bhatia:** Yes, it is about 2.7 million tonnes is Raigarh and 1.0 million tonnes is Angul, it is approximate. So, right now our endeavor is to ramp-up volume as much as we can do. I cannot give you the final number ending fourth quarter, we will share it with you when we declare the results of the fourth quarter.

**Ravi Uppal:** But, if I have understood your question, you are saying that you can probably utilize the capacities at the mines. I think the endeavor is only to do more in terms of the mills and all that. But we have now a fairly dynamic way of assessing whether we should make the end product or sell the semis which are more cash generating business, fast cash generating business, rather than making TMT or wire rods and others. So, we keep on taking that decision somehow, depending on as to what is the profitability. The rail mill utilization in the current year is much more as compared to the previous year. The plate mill is better utilized. Obviously, the ultimate endeavor next year going forward is to use the mill capacity which is available and sell less and less of semis.

**Ravi Shankar:** Understood, okay. The next question is on power. So, are there any one-offs in the Power segment this quarter?

**Ravi Uppal:** What does that mean; one-off, in which regard?

**Ravi Shankar:** So the ASP has increased from say Rs. 3.17 a unit to Rs3.6 for JPL as a whole. So, this jump, basically we have not seen a similar kind of jump either on the exchange prices or from whatever source we have picked up prices from, so if you could just...

**Ravi Uppal:** Just as I mentioned to you earlier that we are more selective who we want to sell power to. Earlier, we were selling quite a lot of power to the National Exchange and you know very well the exchange rates have not been very favorable and that used to pull down our overall

EBITDA levels. So now, that more and more PPAs are kicking in for us and we are able to sign more bilateral agreements. This is what has caused a good increase, impressive increase in the overall realization of power.

**Ravi Shankar:** So, sir this is clearly sustainable. So, next quarter if nothing else changes...

**Ravi Uppal:** Yes, sir.

**Moderator:** Thank you. The next question is from the line of Abhijit Mitra from ICICI Securities. Please go ahead.

**Abhijit:** Hi, it is Abhijeet here. So, just as a follow-up of the previous question. Given the break-up of Angul and the Raigarh volumes as of Q3, I was just trying to understand what would be the break-up in terms of contribution levels from these two plants. The idea is to understand as Angul ramps up to what number can this Rs. 9,300 per tonne or Rs. 8,100 per tonne which you mentioned can reach? Is Angul breaking even at current production levels or is it a significant negative contribution that we are seeing and how is that going to change provide everything remaining constant, if you can just throw some color on that?

**Rajesh Bhatia:** We earlier clarified to you that our steel contribution, EBITDA contribution is at a level of Rs. 8,100 but if you rope in pellet into this it is Rs. 9,300. Now, Raigarh is our mature plant, Angul is a plant which is coming in, we started and now the production capacity is being sort of increased multiple fold and with more steel produced obviously, the share of fixed cost on every tonne of steel that we produce it gets shared & comes down. Therefore, the net margin that we get from them improves. The good news is that Angul is delivering us a positive EBITDA already now and a bit more capacity kicking-in, I think, it is going to go up still further. Next year it will emerge as a major EBITDA contributor to us in our steel business.

**Ravi Uppal:** So, I think, overall basis, if you see, the current year Raigarh plant will do about 3 million tonnes Angul plant will do about 1 million tonne and next year, we will achieve a total of 6 million tonnes where the expansion will come from the completion of blast furnace at Angul.

**Abhijit:** Right, so that is helpful. The next question which I had is that there has been a lot of talks on the divestments. I think, some of them we have been hearing for a while now including some of the stake sale at the plant level and other non-core assets which we are looking to sell out. So, any sort of update on that and the kind of cash flows generation that we are expecting on a base case basis over the next 1 year, 1.5 years from those. Some update can be helpful.

**Rajesh Bhatia:** When it comes to divestment, we have all along held that we can look at some prospects of divestment, provided it makes a business sense to us and to our shareholders and we have done some divestment. For example, we have done the wind power, we deliver certain market securities we had, we have divested those. We will continue to look at some other prospects as

long as they make a business sense. All our assets we have built are world class assets. So, if at all we have to ever accept a divestment proposal from any prospective buyer, it must make eminent sense which is something that we have not seen. So, when we see that we obviously will evaluate this on its merits. We have time and again mentioned that JSPL will never do distressed sale of any of their assets. And if a good value comes, then we certainly will consider. So, that is the way the Company policy is.

- Moderator:** Thank you. The next question is from the line of Girish Achhipalia from Morgan Stanley. Please go ahead.
- Girish:** Hi sir, this is Girish. Just on the power side a couple of questions. Is there any element of change in law which is booked in the current quarter?
- Ravi Uppal:** Yes, as a part of this statutory law which is booked in the current quarter.
- Girish:** Change in law?
- Ravi Uppal:** Change in law. Yes, so that is what we said earlier that there were certain increases in realization which was a result of the change in statutory law and that is something we were in the process of discussing and finalizing with the customer and now that is done and that has been done in this quarter.
- Girish:** Sir, could you quantify how much is that and is there any prior period change in law also booked in the current quarter?
- Rajesh Bhatia:** So the current quarter is about Rs. 35 crores, which is there and then there are some areas for the earlier period also about Rs. 50 crores.
- Girish:** Okay, that is helpful. Secondly, just on the deal with JSW Energy for Tamnar, how is that progressing on both PPA and fuel side? I mean, what is the long stop date for the Rs. 6,500 crore valuation?
- Rajesh Bhatia:** So that is June 30th, 2018 the long stop date. But you know that the PPAs are not really forthcoming in the market. So, I think, in the next 15 months' period as the new PPAs come in we will look to tie up some of the PPAs in that or we have other capacity also available, so we will have to really wait and watch which side we book the PPAs.
- Ravi Uppal:** I must tell you that JPL is fiercely competitive. If you look at the success rate, JPL success rate is extremely high. It is just a matter of when the PPA inquiries come. We will leave no stone unturned to see that we book the capacity.

**Girish:** Just a final question on the coal cost side. What kind of reduction are we expecting given the efforts that we have put in versus the Q3 run rate I mean, what kind of reduction can you expect in the near-term?

**Ravi Uppal:** This is a very interesting question. One of the areas, where we have worked very assiduously is to control our fuel cost because it is a major part of our total cost structure and by taking multiple initiatives by way of picking up the coal from the right mines. If we go for auction with government, we make sure there should not be grade slippage. We have been able to bring down the cost of the fuel. To give you an example, in the last six months, our fuel cost has come down by nearly Rs. 0.28 per unit.

**Moderator:** Thank you. The next question is from the line of Partik Shah from Tracom Stock Brokers Private Limited. Please go ahead.

**Partik Shah:** Sir, my question is regarding the Sarda Mines Case and also the inventory of around 10 million tonnes, which is there at the court. If I am not wrong, what I understand, you have already paid for that inventory. We won the case in the Odisha High Court and now I think, the case is pending in the Supreme Court along with the consortium of SBI and other banks. And all these fines would go into our pellet plants if we win this case. So, just want to understand, right from the date when this inventory was there and current date, I think the prices of even iron ore fines have went up a lot. So, I am just trying to understand, if in future we land up winning this case, will they honor the same that you already paid for that inventory and how will it change the dynamics of your pellet cost of products?

**Ravi Uppal:** This matter is subjudice, so we cannot comment on how the matter will be ultimately handled by the Supreme Court. On the issue of the fines lying there, they have already been paid for, so there is no cash outflow as we utilize these fines in our pellet plants, so incrementally, these fines have been recorded at a very low cost, there is going to be a huge upside of say about Rs. 1,800 crores as we utilize these fines.

**Partik Shah:** Thank you. And sir, one more question is regarding your guidance for the next year. I think it seems extremely bullish in terms of the production levels, volume levels, the EBITDA per tonne level. I am just trying to get a sense, by when can we expect our operational performance to service our debt and in future generate free cash flow. What is the guidance that you have for that?

**Ravi Uppal:** You could see from the Q3 results that we are already covering the interest now. The EBITDA levels are quite in excess of the inter service costs that we had. And I think, the next game is going to be played around volumes. We will continue our efforts to reduce the cost and increase the price realization. But I think, the single largest contributor is going to be volume, so that will be the focus of next year's budget and as the volume goes up, the per unit cost also comes down. So, it all contributes to the virtuous circle.



- Moderator:** Thank you. The next question is from the line of Ashish Jain from Morgan Stanley. Please go ahead.
- Ashish Jain:** Sir, my question is on the standalone business. If I look at the segmental of the standalone business the EBIT margins in the power segment has improved from 16% to 48% whereas, for the Steel segment it has improved from 1.6% to 2%. So, what really drove that improvement because my sense is that is really translating into a large part of the EBITDA improvement. So, can you just explain that improvement in power segment margins for standalone?
- Rajesh Bhatia:** So, I think it is a couple of factors: One, as Mr. Uppal said, that the fuel costs are much lower in this quarter as compared to the earlier quarter and this is also a bit of a mix when you have the power being utilized internally, at what price you are charging the power to the steel business and all that. So, it had that dimension also.
- Ashish Jain:** But sir, for standalone, I would believe all the power is sold internally, so if...
- Rajesh Bhatia:** For the standalone internally, as well as externally also.
- Ashish Jain:** Okay. Sir, what is the breakup of internal and external sales from standalone power business?
- Rajesh Bhatia:** We can provide that to you offline.
- Ashish Jain:** Okay. Sir, and if it is driven by fuel cost improvement and all, do you think this 48% kind of margin is sustainable going ahead?
- Rajesh Bhatia:** 100%. There is no doubt about that. I think next quarter we will still achieve a much lower cost of the fuel given that as Mr. Uppal said, there is a huge focus on the coal from Coal India & the quality slippages. Apart from the reduction in premium in the auctions, the one important factor which had helped us to bring down the power cost is the way we have been able to arrest the grid slippages.
- Ravi Uppal:** There is one thing more that I want to point out to you that we have started participating in all the auctions which are being done by Coal India for linkages, I am happy to inform you that we have already secured linkages for about 2 million tonnes for our captive power plants. Also for our DRI plant we have got linkages for 0.7 million tonnes. So, we believe that government is going to come with linkage auctions for the IPPs also it is very much on the cards. Should that come, we will do everything possible to see that we secure it.
- Ashish Jain:** Sure. And sir, secondly, earlier in the call you said, that your EBITDA per tonne on steel has month-on-month increased through the quarter. So versus Rs. 8,100 number for the quarter, would December be like closer to Rs. 9,000 kind of number December month?

**Ravi Uppal:** I would not like to speculate on that. I think the improvement is steady, is going to improve. We are still in the middle of the quarter you know Q4. I do not know how things will pan out in the remaining six weeks. So, I will answer you when I speak to you after the fourth quarter.

**Moderator:** Thank you. The next question is from the line of Mohit Pandey from Citigroup. Please go ahead.

**Mohit Pandey:** Sir, I have two questions, one on Angul project. So once this blast furnace is commissioned, we will have about 5.5 million tonnes of Hot Metal/DRI capacity. So, what about the front-end capacity, SMS, and the final product? How do we plan to put that capacity in place, so that we have a finished steel capacity of roughly the same quantity in Angul? That is one. And does your CAPEX guidance build in that for next year? And the second one is on the pellet business, so we understand that the rated capacity is 9 million tonne but is it really possible to achieve that rated capacity because I think, in last conference call it was mentioned that given the concerns around the quality of pellet being produced, it is possible to achieve only 6.5 million tonnes, 7 million tonnes?

**Ravi Uppal:** Yes, I think, it is good that you recalled what was said the last time. It is true, that the nominal capacity of the plant is about 9 million tonnes. But that is based on a particular composition of the pellet. The pellets have been produced out of different grades. There is one particular grade which goes into DRI plant. There the requirements are very stringent in terms of the average size of the pellet and the compression strength which is there. So, that leads to a slight reduction in the volume that you can produce. So, I can tell you what we are producing right now is very close to the best that we can do. So, if the mix of the pellets change then we produce less of DRI grade then it is a different matter, we might be able to achieve some more improvement. But right now, we are very close to what we can do because when you are producing 6.5 lakh per month or 7 lakh, it translates into 7.5 million tonnes to 8 million tonnes of equivalent capacity. So, that is one. Second, coming to your question regarding the blast furnace and if the other facilities are also being set up in matching, the SMS, and the others, you know that the blast furnace at capacity per se is 3.6 million tonnes to 4 million tonnes and we have already an existing capacity, which is about 1.8 million tonnes to 2 million tonnes. So, you can say effectively the plant when it is operating to full capacity is about 5.5 million tonne to 6 million tonnes. But we mentioned to you that we will produce only about 3 million tonnes next year; 3 million tonne from here and 3 million tonne from Raigarh, about 6 million tonne. 3 million tonne we are saying because there are certain other things which we need to add like Basic Oxygen Furnace because when you produce the hot metal, you have to take it into BOF to make it into steel. So, the actual production of steel will gradually ramp up, even though we are putting up blast furnace capable of delivering the hot metal to its full capacity. So, this is how it will gradually do. So next year we are doing 6 million tonne, year after that we might be doing 6.5 million tonne, 7 million tonne, etc., a gradual increase in production will take place.

- Mohit Pandey:** Okay. And sir, the final one my side, I mean, can you comment on this railway and the Bangladesh PPAs? We have heard about them for quite some time and we understand that company has also participated in some of them, but there has been no progress. So what is the status there?
- Ravi Uppal:** When I mentioned to you about the new PPAs which are coming, I did not mention these two names. I mentioned to you about the two Kerala and one U. P. probably because they look more certain. Actually two of them are already there with us, and third only U. P. is the one which has to be concluded. I did not mention Bangladesh because these customers keep postponing their requirements. But a few others may come like Jharkhand may come next month. So we have been very conservative in what we are saying in terms of the total power off take prospects.
- Moderator:** Thank you. The next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.
- Bhavin Chheda:** Sir, few questions. Regarding the Mozambique mine, what would have been the volumes in the quarter? I think, you have mentioned the South Africa coal volumes, Mozambique volumes are not there in the press release?
- Ravi Uppal:** 200,000 tonnes..
- Bhavin Chheda:** 0.2 million tonnes. And Australia would have been?
- Ravi Uppal:** We had done 100,000 tonnes.
- Rajesh Bhatia:** 100,000 tonnes.
- Bhavin Chheda:** Okay. And the Mozambique volumes what you mentioned is this the entire coking coal volume or this includes thermal coal?
- Ravi Uppal:** What we mentioned is basically the ROM production. About 24% is the coking coal and about 10% to 12% is the high-grade coal and there are other grades of coal which are there and about 30% is waste and ash, etc. So, we produce different grades, the high quality thermal grade 10% to 12%, 24% coking coal then you have the other coal which is a lower grade, low GCV, etc., so we have different customers for each grade.
- Bhavin Chheda:** So, 0.2 million tonnes is the raw coal volumes?
- Rajesh Bhatia:** We will ramp up and do this much on a monthly basis from Mozambique.
- Bhavin Chheda:** Okay. And sir, my last question on JPL level earlier question also, so there has been a big positive surprise on both the EBITDA and driven by the increased realization rate as well as

the lower landed coal cost in that. So, you mentioned, also that you think this is sustainable and in fact, improve because your few PPAs have not started yet. So, is my assumption correct there?

**Ravi Uppal:** You are correct, because the costs will progressively go down and the new PPAs will kick-in, so both these things will happen.

**Bhavin Chheda:** Okay. And what would you think for FY 2018, we should assume a PLF there since now, all your units have started at Jindal Power Limited. So, if any guidance you like to give on FY 2018, what kind of numbers we look there on generation?

**Ravi Uppal:** I mentioned to you that right now we are running about 1,350 megawatt of power and our PLF or the running machines which are running is about 90%. So, we are very selective as to how many machines we will run because we are not desperate to sell it to National Exchange. So, I do foresee once the new PPAs kick-in and also in particular U. P. comes along that we will run two machines of 600 megawatt and three machines of 250 megawatt, which means about 1,950 megawatt, based on the prospect that we have in hand or we have within the line of sight, okay.

**Moderator:** Now we will take the last question please.

**Moderator:** Sure, thank you very much. We have the last question from the line of Pallav Agarwal from Anitique Stock Broking. Please go ahead.

**Pallav Agarwal:** I just had a question on the external pellet sales. So, once we ramp-up our volumes to say 6 million tonnes overall, then will our merchant sales of pellets come down because we are not adding any new pellet capacity? So, if we continue to operate at the current run rate, so how much of your external sales of pellets is possible in FY 2018?

**Rajesh Bhatia:** I have mentioned to you we produced about 650 million tonnes to 700 million tonnes, let us say 650 million tonnes. Out of which that our internal consumption is between 350 million tonnes to 375 million tonnes. So that leaves for us about 300,000 tonnes to be sold in export and the domestic private customers. So, depending as to where we get the better realization we engage with those customers and so, there is a level that we are selling right now, so this level should sustain.

**Ravi Uppal:** And your question that as you increase the steel capacity you will utilize more pellet internally though at Angul blast furnace you have a sinter plant, so you will use the sinter not the pellets and lumps.

**Pallav Agarwal:** Okay. So, your pellet sales you can continue at this level?

**Rajesh Bhatia:** We hope for that.

**Ravi Uppal:** Only one final comment I have to all of you. Thank you for joining. Thank you for being patient for JSPL to deliver a better performance. Our journey is steady. We have a very clear path of what we intend to do. And I am absolutely certain that JSPL will be able to come back to its historical performance levels. We will certainly like to meet all of you in Mumbai in the near future. I want to thank all of you for joining us today. It was lovely listening to your questions and your concerns and answering to the best of our abilities and when we convene the Bombay Meeting, our Chairman -- Mr. Jindal is also going to join in. So let me extend all of you an invitation already now that, do join us when we hold the Bombay Meeting, we will give you enough notice for that meet.

**Moderator:** Sure, thank you very much.

**Nishant Baranwal:** Thank you everyone. With this we would like to end the call. We thank you all for joining us today. Now, we pass the call to Mr. Sanjay Jain-- Motilal Oswal.

**Sanjay Jain:** Yes, thank you so much. It has been a pleasure hosting the call. Thank you, bye.

**Moderator:** Thank you. On behalf of Motilal Oswal Securities, that concludes this conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.