"Jindal Steel & Power Limited Q3 FY2018 Earning Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to Jindal Steel & Power Limited Q3 FY2018 Earnings Conference Call hosted by Motilal Oswal Securities. 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 touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Sanjay Jain. Thank you, and over to you Mr Jain!

Sanjay Jain: Thanks Janice. Ladies and gentlemen, good morning. On behalf of Motilal Oswal Securities I welcome you to Jindal Steel & Power conference call. Today, we have with us senior management of the company to discuss the key highlights of Q3 FY2018 results and the business outlook. Without much ado, I will handover the floor to Nishant Baranwal, head of investor relation. Nishant please take.

Nishant Baranwal: Thank you Sanjay. Good morning and a very warm welcome to everybody who has joined us for this conference call to discuss our Q3 FY2018 financial results. Today we have with us our CEO Steel, Mr. Naushad Ansari, our CEO Power, Mr. Bharat Rohra and our CFO, Mr. Deepak Sogani. To start the proceedings I would request Mr. Ansari to make his opening remarks.

Naushad A. Ansari: Thank you Nishant. Good morning ladies and gentlemen and welcome to this investor conference call this morning. It is a pleasure to speak with you regarding the Q3 results. I am very happy to say that Q3 results represent a very good set of numbers for JSPL both on production and financials. What has really been significant this quarter is the ramp up of the blast furnace in Angul and the also the completion of the BOF. The completion of BOF marks the completion of the Angul Phase-1B program. You have seen the numbers in terms of EBITDA performance, the cash flow, PBT, and PAT. You would have noticed that in every parameter, we have made a significant improvement compared to the same quarter last year. In steel, we produced 1.39 million tonnes and sold 1.36 million tonnes on a consolidated basis. This production included 0.4 million tonnes in Oman and 0.97 million tonnes in India.

As you all can see, our Oman unit has shaped well and continues to make a wonderful contribution. The EBITDA for the third quarter went up by about 200% year-on-year to highest ever at 63 million USD. I have stayed in steel industry for more than 40 years and I can tell you that this is one of the best Midrex plant in the world, a fact, which has also been demonstrated by our becoming one of the fastest in Midrex plants worldwide to record 10 million tonnes of production. The rebar mill in Oman is working well and we are already number one in Oman and number two in UAE in terms of rebar sales. On the home pitch in India, with Angul phase-1B now done, we should gradually see the volumes going up. We completed the BOF on December 26 and since then the ramp up is going well. Right now, we are in the phase of debugging and debottlenecking and the ramp up. With a total capacity of around 9 million tonne in India we have a lot to achieve in terms of production from here. As we ramp up, we are focusing on selling more and selling more of value-added products where the realization is better and it gives us competitive place in the market. Long products and semis still comprise 70% to 75% of our product mix even on expanded production and the recent rise in long product prices should bear well. With Angul producing more, we believe significant cost benefits should also come into play. Our pellet business continues to add to the bottom line with total production going up to 1.76 million tonne in third quarter FY2018.

Our exports are also on the rise and they have risen very significantly during the year. The plates that we produce in Angul are in very high demand overseas and as we ramp up Angul, you should see us exporting more of these. We now have export presence in more than 20 countries, so our footprint in exports has been continuously increasing.

In our overseas mines, the performance has been better than last quarter. With coking coal prices stabilizing and touching new highs, our teams in Australia and Mozambique are focused on increasing production. In Australia as you know our contractor had filed for insolvency in May-June, and then we decided to produce with contracted workers. We began production mid December in Wongawilli mines and will be ramping up production gradually. In Mozambique the production continues to increase, but the ramp up is a bit slow and we are introducing new equipment to accelerate the rise. So you would see that all our verticals are now gaining momentum and are looking to contribute to the top line. With this I would pass onto Mr. Bharat Rohra, who is the CEO of power business to give his input on the power business.

Bharat Rohra: Good morning to all of you. This quarter for Jindal power has seen a slight improvement in the performance in terms of the generation because we have started operating four units at JPL Tamnar**.** There are four units of 250 megawatts and four of 600. Out of these we have operated two each in this quarter, which has given us the better generation of about 2,980 billion units of generation.

The EBITDA has also gone up, but only marginally because of the high price of coal, which was prevailing in this quarter. The turnover has increased and the NSR has gone down again because of the coal pricing. We are looking forward to better availability of coal in the next quarter from the government's SHAKTI policy, which they have announced to be implemented very soon for plants, which do not have PPAs, and we are very optimistic about that. So that is all what I would like to share with you regarding the power business. Now I would like to handover to our CFO, Mr. Deepak Sogani.

Deepak Sogani: Good morning everybody. It is my pleasure to share with you, our Q3 financial performance. Just to baseline the performance, I will go through the financial performance once more in a bit of detail, so let me just start off by sharing the steel business performance. So on a standalone basis, the steel production stood at around 968,000 tonnes in the last quarter, quarter ending December of 2017 and the QOQ growth was 9% in our production and on YOY basis, our production grew by a healthy 15.8%. The total sales also grew by 12.8% on a quarter-on-quarter basis and they grew by 11.8% on a YOY basis. Our standalone revenue stood at Rs.4,272 Crores in this quarter as compared Rs.3,668 Crores in the previous quarter. Our quarter-on-quarter revenue growth was 16.5% and on a YOY basis that is Q3 of this year versus comparable quarter last year was 9.6%. Our reported EBITDA in Q3 that is December ending quarter is 921 Crores as against 784 Crores reported EBITDA on a standalone basis in the previous quarter, so on a quarter-on-quarter basis our EBITDA has grown by 17.5% and on a YOY basis also our EBITDA has grown by 17.5% for the standalone basis. Our EBITDA per tonne in the last quarter has grown by 4.2% and on a YOY basis the EBITDA per tonne has grown by 5.1%.

On a consolidated basis, the steel production grew to 1.39 million tonne as against 1.32 million tonne in the previous quarter and the comparable quarter of last year of 1.14, so we had our production grow by 5.6% on a quarter-on-quarter basis and 21.5% on a YOY basis. Our consolidated revenue stood at Rs. 6,993 Crores as against Rs. 6,123 Crores in the previous quarter. Our quarter-on-quarter revenue growth stands at 14.2% and our YOY revenue growth stands at 20.8%. Our consolidated EBITDA for the last quarter stood at Rs.1606 Crores as against Rs.1373 Crores in the previous quarter showing a very healthy growth of 17% growth on quarter-on-quarter basis and 25.8% growth on a YOY basis.

Let me very quickly share the financial numbers for our power business. As Bharat shared our power generation has grown on a quarter-on-quarter basis by 23% and on a YOY basis by 27%, so the generation is showing a very positive trend line and we are hopeful that in the quarters coming we will show even better improvements. The EBITDA has grown by 3% on a quarter-on-quarter basis and 18% on a YOY basis, so the EBITDA for the power business in the current quarter stands at Rs.356 Crores as opposed to the previous quarter of Rs.345 Crores. The total turnover has also shown a significant growth in the current quarter. The quarter-on-quarter revenue has grown from Rs.878 Crores to Rs. 1172 Crores showing a 33% growth there. Our fuel cost obviously had a bit of an impact on our profitability in the current quarter. So that is a quick reporting on our power business.

In the Oman business in the December quarter we did Rs.407 Crore of EBITDA as against Rs.352 Crore EBITDA in the previous quarter and Rs. 140 Crore EBITDA in the corresponding last year's quarter showing a significant growth in our Oman business. On a QOQ basis our EBITDA has grown by 15% and on a YOY basis, our EBITDA has grown by 190%. So that is the critical reporting on Oman's side.

Now I would like to share a bit on our financial, just to add a little bit more colour to the numbers that we have been describing. Clearly as we are scaling our business, several initiatives are being undertaken by us. We are very focused on enhancing optimization of our operations at multiple levels. We are focused on bringing strong fiscal discipline and a sharp focus on cash management to enhance our working capital management significantly so we have received some very positive results coming in, in this area over the last few months and as we ramp up our business in future, we are hopeful that the enhanced focus approach on the cash management will yield significantly positive results and help us to manage the working capital on a go-forward basis on the ramped up volumes in a more efficient manner. So that is one large initiative that we wanted to share. Secondly as I am saying that we have initiated operational efficiency initiatives across the board, there are several initiatives whereby we are focused on improving our variable cost per tonne and we are also focused on looking at our fixed cost per tonne. Nevertheless as we ramp up, our variable cost will come down because of the scale-led benefits. Our cost of production because of the BOF process is likely to be much cheaper in our Angul plant also, so on multiple fronts we should be able to harness operational efficiency benefit while we sweat our assets in the period to come, so that is the high-level directional to manage the business more efficiently. From this quarter onwards, we are also starting to report on our debt numbers on a YOY basis because within the quarters obviously there is bound to be some inherent volatility in the debt numbers. So we are pleased to report for the first time our quarterly debt numbers. Our consolidated debt stands at Rs.42,407 Crores as on December quarter FY18 and in the corresponding quarter in the last year, the debt number was Rs.45,176 Crores, so as you may notice that on a quarter-on-quarter basis, we have been able to significantly reduce our debt levels by Rs.2,769 Crores.

In addition, I would like to share that as a management team we are becoming very focused on the net debt to EBITDA metrics. The net debt to EBITDA numbers in FY2017 was 9.48. Internally we are focused to progressively bring it down to below three levels. Several initiatives by way of divestments and other initiatives are being undertaken, some more will be undertaken, in order to progressively bring down net debt to EBITDA to a significantly lower number over the next few years. With that I would like to complete the financial reporting. Thank you very much.

Nishant Baranwal: Thanks Mr Sogani. With this we would like to open the floor for questions, we would request you to please not ask data questions, we at IR, myself and Shweta, are always there to help you with those data questions, let us ask more strategic questions. With this we open the call to questions.

Moderator: Thank you very much. Ladies and gentlemen we will now begin with the question and answer session. We will take the first question from the line of Sumangal Nevatia from Macquarie. Please go ahead.

Sumangal Nevatia: Thanks. First question is on the international business if you look at the EBITDA from the other business that is console minus standalone, JPL and Oman, which still remains at around Rs.75 to Rs.85 Crores loss on a quarterly basis, could you share your views on when you believe this, we could break even on the subsidiaries?

Deepak Sogani: Let me start up by answering this question. From an international operations point of view, we have three distinct components. Obviously the Oman piece as we shared has shown a 190% YOY growth in EBITDA and is doing extremely well. The second piece is the Australia piece where we had the Wollongong coalmine and the third piece is the Africa piece where we have our assets in South Africa, Mozambique and Botswana. So, on the Australia side we are happy to report that the coking coal prices have increased significantly and they are hovering around $252 to $260 now and it is the right time we felt to reinitiate and expand the operations in our Australian business, so in the last quarter we have started the operations in Australia in more aggression. We are hoping to ramp up the production there. We have incurred some additional expenses due to restart of operations there. We had to hire people and get some more machinery and everything else, but we are hoping that in the current quarter, the Australian operation should be able to produce sufficiently to take care of its local expenses and the local interest rates. The efforts that have been put in the current quarter should yield good results. As far as the African business is concerned, again we have coking coal there, where we would like to now ramp up from the production point of view. The operating losses there are not very large and in fact we are hoping to develop the Mozambique business further. The thought process of taking it forward is at an early stage, but maybe over the new quarters we will take it forward. However, the larger drag in our international profitability is on account of Australia, which should get addressed in the coming quarters.

Sumangal Nevatia: I understood. Next is on Oman, so rebar volumes have almost reached one million tonne per annum run rate, so is the further room to ramp up and also if you could share how much incremental EBITDA comes from this value addition?

Naushad A. Ansari: This is Naushad Ansari. If you look at Omar rebar plant which has got a nominal capacity of 1.4 million tones. So right now, our production levels are hovering close to about 100,000 tonnes per month. So technically we are very close to that capacity. Again as I said depending on the market situation as to what is our market demand, what is the kind of product mix that is needed, the production will keep going up and down marginally but within a certain limit. Now as far as Oman business is concerned, we have three main products. One is, the rebar which is obviously the most significant product and in addition, we also supply the special rounds for stainless pipes and plus the supply from certain semis to certain sectors. If you look at the value addition, it is more in terms of rebar because the market there is still supportive, I would say that about 70%, 75% of the value addition is coming because of the rebars.

Sumangal Nevatia: All right. Thanks.

Moderator: Thank you. We take the next question from the line of Abhijeet Vohra from Sundaram Mutual Fund. Please go ahead.

Abhijeet Vohra: Good morning. Would it be possible to give us some perspective in terms of the volume ramp up that one can expect from the new facility at Angul in terms of saleable steel from where we are today to next couple of years. How can we see the kind of volumes that will come through and so overall what should one look forward to?

Naushad A. Ansari: This is Naushad Ansari again. With the BOF startup in December, our nominal capacity in Angul has become 5 million tonnes. Now such plants obviously take a little time before the ramp up takes place, there is always some debottlenecking which happens and then the ramping of operation takes place. During the ramping up process, in some of the shifts we have already made eight or sometimes even up to 10 heats which gives us around 30 heats on a daily basis which is very close to what we would like to achieve in the coming few months. Therefore the ramping up process is going fairly well, things are moving in the right direction and also I can tell you that in the month of December together in Angul and Raigarh, we had made steel close to about 355,000 tonnes. In the month of January till date we have gone beyond 374,000. So the production ramp up is already very, very visible in terms of what is really happening. Now going forward how quickly we can attain this capacity that will depend on many, many factors, it will depend on how the market really takes that addition period which is there that also when you ramp up there are logistical issues, which all need to play out, there are infrastructural issues in terms of rakes availability and so on, so there are many, many things which really get into the break, but all I can tell you is that we have the expertise, we have the knowledge and we are moving at a reasonable speed as per the expectations to achieve the rated capacity. Beyond that I am not really in a position to give you any specific number for the year for that too.

Abhijeet Vohra: Thank you.

Moderator: Thank you. We take the next question from the line of Saumil Mehta from BNP Paribas. Please go ahead.

Saumil Mehta: Thanks for the opportunity. My first question is if I look at this quarter realization on a standalone basis and blended basis, it is not reflective of the recent price in the long product prices and also in the pellet prices. So when should we expect that kind of delta with the increase long product prices and second question is in terms of pellet production on an annualized basis we are still at about 7 million tonnes against capacity of nine and given the boom in the export market some of our peers are operating at 100% utilization, so are we facing some sort of logistical challenges or rakes availability or how should we look at the export market for the pellets?

Naushad A. Ansari: This is Naushad Ansari again. The first question in terms of the long prices, you are right that if we look at the rebar prices recently we certainly see an upward swing. The way we do business is we have our order book full generally for almost about three to five weeks. There is always a time lag in realization of price increase depending on the status of order book. Because these prices have started going up only in the last couple of weeks, so we certainly expect that benefit to come through in the next few weeks. For example, the rebars are selling in the market at up to Rs. 40000-41000 per tonne. Right now, since we already have sufficient order books and so on, so it is continuing based on that. Coming to the pellet question, obviously we have a plant capacity which is higher than what we are producing, what we require is sufficient amount of iron ore to come inside and what we require is pellets to go out. We have faced certain constraints on these two issues especially on iron ore side of this. Also we have faced certain logistical and infrastructural challenges in terms of rakes and road transport etc, which are being taken up with authorities and a lot of support is coming from the government. As far as iron ore mines are concerned, we hope that some solution is found quickly between the government and the iron ore mine owners and these mines start operating so that this gap between the demand and supply and which has kind of artificially increased the prices and also created a shortage situation is addressed soon.

Saumil Mehta: Assuming prices sustained at these levels, Rs.4000 to Rs.5000 delta is it possible to capture in Q4, it will be or more in Q1 FY2019?

Naushad A. Ansari: As we can see the prices have already gone up but the time lag would be another four to six weeks only. Obviously in between one expects that the cost does not really shoot up substantially so that the benefit of the price is maintained rather than the margins getting compromised. So assuming those factors are, we should be able to expect the benefit may be in the next four to six weeks.

Saumil Mehta: Sure and my last question with respect to JPL. While Coal India has raised prices so how should we look at the overall cost of generation with higher PLF, is it possible to mitigate some of the other opex with the coal cost?

Bharat Rohra: Yes like you said the strategy that we devised in this quarter was to increase the generation level, so that the reduction due to the coal cost was adjusted against the increase in generation. Now with the monsoon having been over, we expect the coal availability to be much better, so we are able to do more generation.

Saumil Mehta: Okay, fine. Thank you so much and all the best.

Moderator: Thank you. Next question is from the line of Atul Tiwari from Citigroup. Please go ahead.

Atul Tiwari: First of all congratulations on a good set of numbers and more importantly on a very sharp decline in the debt numbers that you shared, which was quite surprising. So just to clarify the numbers that you have shared are gross debt numbers or net debt numbers that it is excluding the cash on the books?

Deepak Sogani: These are net debt numbers.

Atul Tiwari: Okay and would it be fair to assume that this Rs.2800 Crores odd of year-on-year decline, some part of it is also because of the currency movement or is it all like organic pay down of debt?

Deepak Sogani: This is primarily led by the initiatives that we have taken to deleverage ourselves and due to the principle repayment that we have already scheduled during the year. There has not been any significant impact of any foreign currency movement on the debt levels.

Atul Tiwari: Okay. Thanks a lot. That is my only question.

Moderator: Thank you. We take the next question from the line of Rajesh Lacchani from HSBC Mutual Fund. Please go ahead.

Rajesh Lacchani: Thanks for the opportunity. Two questions from my side; number one, since now we have the 2.5 million tonne BOF commissioned, I just want to understand what is the status of 1.8 million tonne DRI plant in Angul?

Naushad A. Ansari: The status of DRI plant is that there was a fire in the DRI plant last year and that rectification process is on. It should take by middle of February till the plant is ready to restart. But it will totally depend on how the BOF operations play out for restarting the DRI. If we have to do a substantial amount of DRI then we will restart this plant. So whether we start in the month of March or in the next few months, it will simply depend on how the ramp up process goes but it will be ready by mid of February to start.

Rajesh Lacchani: Okay and Sir my second question is basically on the coal operations in Africa, so you said that it is close to breakeven but it is still negative, so I just want to understand with such supportive coal prices what is our cost per tonne there and why are we still making losses in that operation?

Deepak Sogani: This is Deepak here. We obviously have not been sharing geography specific profitability in our earnings call and therefore I will resist from sharing the profitability at a geography level, but as I was saying that largest component outside of India where our current focus is Australia where we are very positive that with our efforts put in the last quarter, and restart of operations there, we are getting more and more comfortable that we should be able to gain significant traction and with that we should be able to see a different colour emerging from our international operations. So at this point of time that is what I would like to share obviously the African operations are not as large in comparison with our Australian as well as Omar operation, we will be able to report our African operations more in detail as and when we are ready to share those details.

Moderator: Thank you. We take the next question from the line of Amit Dixit from Edelweiss. Please go ahead.

Amit Dixit: Thanks for taking my question and congrats for a good set of numbers. I have two questions. The first one is on the proposed divestment of our 1000-megawatt power plant to JSW Energy, so what is the status of the same and whether it will be completed as per the schedule?

Deepak Sogani: Let me just take a shot at that. As you are aware we have an agreement with JSW to sell, we have already received the advance and there are certain conditions to fit in and other diligences that are ongoing at this point of time. I guess the process is moving as planned and it is going to be difficult to comment otherwise. The deadline for completion of the transaction is June 2018 I would just like to suggest that we have both the teams working on the transaction and we shall be able to kind of share the news as and when there is some news to share.

Amit Dixit: Okay, sure, I appreciate it. Second question Sir, on the EBITDA per tonne excluding pellet, if you exclude pellet then what was the EBITDA per tonne from purely steel business in this quarter and how does it compare with the last quarter and the year before?

Naushad A. Ansari: We have an integrated plant and we really do not do it department wise. We really do it in an integrated fashion. So therefore we would really like to share the number based on integrated plant.

Moderator: Thank you. We will take the next question from the line of Pallav Agarwal from Antique Stock Broking Limited. Please go ahead.

Pallav Agarwal: Good morning Sir. I have a question on the trend of increasing input cost, so now we have been producing more through the BOF, coking coal exposure would increase, so how much of the cost increase in coking coal has been captured in Q3 and how much would come with a lag in Q4?

Naushad A. Ansari: As you are aware that the blast furnace has been operative for quite some time now and we have been obviously operating blast furnace close to about 50%, 55% capacity, the blast furnace will also ramp up. So the good thing is that as you ramp up the blast furnace, the coking coal requirement on a per tonne basis comes down, because you are able to inject more of PCI. For example, let us say when you are operating close to at about 50% capacity you might be operating with a carbon equivalent of something like 570kg per tonne or so, but once you ramp it up you might even come down close to about 530kg, 540kg and then out of that around 170kg-180kg could be the PCI. So therefore the coking coal requirement per se on a per tonne basis will continue to come down. Recently we have also seen some softening of the coking coal prices and to that extent while on one hand, it favorably benefits the blast furnace operation, on the other hand it adversely affects our coking coal mines operations, you could also say that since substantial portion of our coking coal will come from our own mine so we can also be a little cost neutral to that. So from that point of view it is not something we are really concerned about. The important thing is to ramp up the blast furnace in such a way that the coking coal requirement itself starts coming down substantially.

Pallav Agarwal: Sure Sir. Also there is one question on pellet sales over this quarter I think we sold a pretty good numbers, so on an annualized basis it is about 3.5 million tonnes of external sale, so now our ramp up of steel production will be maintained in this level of external pellet sales or we could see more of captive consumption going ahead?

Naushad A. Ansari: We are in the main business of making a steel as well as selling pellets or using those pellets in making steel and getting better margins. If we find that it is better to sell some more of pellets and use more iron ore to make more sinter we shall do that. It is a question of optimization of the business. We will continue looking at what is the best way. We cannot just say that my end objective is to sell more pellets even if it cuts down your steel production. The objective is to make better money whichever way it comes so therefore the important thing is to build that capacity, make sure all that infrastructure is available to produce the kind of pellets that we need. Our internal consumption is also going to go up, our iron ore requirement is also going to increase so we will continue balancing that and finding out which is the best way of doing it. In any case as far as sales of pellet and export of pellet is concerned, the market is still quite heavy and as long as the environmental issues are there, which kind of push more and more pellet for blast furnace operations. We expect this market to improve therefore giving us a lot of flexibility both in terms of selling pellets or alternatively converting into steel.

Moderator: Thank you very much. The next question is from the line of Kamlesh Bagmar from Prabhudas Lilladher. Please go ahead.

Kamlesh Bagmar: Sir just one question on the part of debt. We have seen roughly around Rs.2600 Crores of debt reduction so I believe that we have got roughly around Rs.700 Crores debt from the leaseback of that oxygen plant, but and even if we see Rs.1500 Crores of cash profit which we have generated in nine months and we would have done capex of roughly around Rs.1200 to Rs.1300 Crores so what is the reason behind this sharp fall in debt adjusting for that leaseback and all those things?

Deepak Sogani: This is Deepak. Our debt reduction point of view is the fact that there are already scheduled repayments. In addition to that we have been cautiously trying to reduce debt by oxygen plant sell and leaseback transaction and some other transactions that we have done in the recent past. All of them have led to the reduction, Capex has been partly funded through internal approvals and also we have optimized the working capital to some extent. So those are different levers that are moving their internally and cash is being generated. We are trying to take care of deleveraging through multiples sources.

Kamlesh Bagmar: Sir lastly two data point how much was the capex in this nine month and how much advance you have received from the JSW energy for that 1000 megawatt power plant?

Naushad A. Ansari: From JSW the advance received was Rs.400 Crores against the sales that have also contributed in helping us to deleverage partially and on the capex side, I do not think we have been sharing capex balances on a quarter-on-quarter basis. If we need to do that we will kind of figure out the process to do that periodically, but on this call I would like to avoid sharing capex numbers as it has not been our practice in past.

Kamlesh Bagmar: Okay thank you Sir.

Moderator: Thank you. We take the next question from the line of Chirag Khasgiwala from GMO. Please go ahead.

Chirag Khasgiwala: Continuing the debt question your current net debt is roughly around Rs.42,000 Crores so if you look at FY2020 considering the operating cash flow that we will be generating plus your deleveraging measures are going on, then there is a working capital requirement, some additional debt will be required for capex as well, so what sort of net debt can be seen FY2020?

Deepak Sogani: So let me take that question, first of all let me correct the net debt that I have reported is Rs.42407 Crores. Number two if you see the levers that are functioning, one is that we are at the end of capex cycle, the Angul plant has got completely commissioned and there may be few small balancing capexes that maybe required but bulk of the capex cycle is behind us at this point of time and therefore all the operational cash flow that will get generated would help us deleverage on a net debt basis. I would also like to say that there is a very focused effort the management team has vouched to optimize the usage of cash in the business whether it is in working capital cycle or whether it is blockade in our balance sheet of cash, we have been able to kind of release a lot of blockades in our balance sheet as well so we will put in all out efforts to bring in fiscal management of the next order, which is again helping us to manage our business more efficiently and therefore while we will grow business but the working capital expansion will be significantly lesser than what it would have been without the initiatives, so I think these efficiency are also leading us to believe that we will be able to manage our cash more efficiently and lastly, I would like to say that with the significant improvement in the business outlook, which is visible, there is no forward looking intent in that, we are all seeing that steel prices have gone up by 20%-25% on a yearly basis so lot of improvement in the business outlook from a profitability point of view. We will obviously increase our operational EBITDA further so at the back of improved profitability scenario, which is likely and at the back of an outlook of increasing capacity also. Our directional thought is that the additional operational EBITDA that we will generate will help us to further deleverage and further reduce the net debt to EBITDA and therefore very consciously we have started positioning the net debt to EBITDA as an important management metrics from this quarter onwards so that you all know that we have now focused on consolidating our business, not that capexes will not happen. We are in very large industry, some small balancing capexes will happen on and off but directionally as a team we understand that we are playing the steel cycle, we are in the right time in the steel cycle, we understand that large capacities are available, so the largest focus is to sweat our assets create more cash from our business, deleverage ourselves and reduce our net debt to EBITDA.

Chirag Khasgiwala: So what kind of net debt to EBITDA are you targeting two years down the line?

Deepak Sogani: Directionally we will want our net debt to EBITDA to be somewhere between 3 to 4 or below, we do not want to be higher than that and as I said, last year end, FY2017 end, the net debt to EBITDA was 9.48 so there is a quantum shift in internal thinking and we will continuously strive to make it happen. We do not want to give any yearly forecast on when it will happen. I think we would like to avoid it but directionally it is a very critical thought internally to focus on net debt to EBITDA and we will continue to report progress on it as time passes.

Chirag Khasgiwala: Okay thank you.

Moderator: Thank you. We take the next question from the line of Amit Goela from Rare Enterprise. Please go ahead.

Amit Goela: Sir about this question I do not know whether you will be able to answer this or not, see your domestic EBITDA if I am right is about Rs.9500 approximately and this is based on the full fixed carrying cost on Angul which was not producing efficiently so now with the new BOF on and your production ramping on, could you throw some light on how these numbers can be expected to change or what kind of operational efficiencies can kick in?

Deepak Sogani: My suggestion is that number work should be best left to people who are good at numbers which are you guys; we can only give you the high level understanding from the management point of view. I think over this call we have very clearly said that we will see operational efficiencies coming in into our operation as the blast furnace starts to produce at a higher capacity. As Ansari Ji also mentioned that the crude cost and other energy cost etc., with the blast furnace will be lowered, the BOF process will also be more efficient, so directionally we have been saying that the cost of production in Angul will go down by at least maybe Rs. 2000 to 3000 per tonne. We said that we have as any other integrated steel supplier, some part of our order book, which is old and locked in at older prices and we see the benefit of the newer prices coming in by and large within four to six weeks, so I think we again say that the directionally in the coming quarter we should be able to see better realization of the prices flowing to our bottom line, than what has flown in the last quarter and we have spoken about our other operational efficiency initiatives on the fixed cost and on the cash management side, so broadly scale is going up, operational efficiency will deliver results and as the same time, more of the topline improvement will come our ways. If there are additional cost-pushes, we will have to deal with them.

Amit Goela: Okay Sir so you are seeing about Rs.2000 to 3000 production cost come down, directionally I am not holding you to it?

Deepak Sogani: Let me say what I said, in Angul we will see improvement.

Amit Goela: Okay fair enough.

Deepak Sogani: Businesses outside of Angul also Raigarh has been producing at 90%-95% capacity utilization and it is running fully efficiently right now. So the blend between Angul and Raigarh will deliver the bottom line to us. It is not just Angul. I hope that will be fair.

Amit Goela: Okay thank you so much.

Moderator: Thank you. We take the next question from the line of Romil Jain from JM Financial. Please go ahead.

Romil Jain: Sir I just want to understand how do we see the India demand because as we are increasing our production will we be able to kind of absorb this increased volumes or we will have to focus on exports and if you could give some reading on the global steel prices and outlook on demand-supply going ahead?

Naushad A. Ansari: Let me deal it one by one. If you look at Indian steel demand scenario so to speak, I am sure you must be following the steel ministry’s vision that by 2030 they really want to go for 300 million tonnes of steel, they are trying to find ways and means by which it can be done for example there are several initiatives that the ministry is doing. On top of it we also see if you look at Indian steel scenario, more than 50% of the steel requirement is for the construction sector and it continues. Therefore there is a lot of focus now today on the construction sectors simply because lot of movement is going to take place in infrastructure area in terms of the railways, roads, ports. Our sense is that going forward India will become second largest producer in the world beating Japan so to speak as of now we are number three. We still have a very low per capita consumption of steel so we are very, very hopeful that this steel consumption is going to go up, the steel demand will be there at least in the coming few years. We have substantial capacity to produce rebars and structures which go into construction area and therefore we hope to get the benefit out of it. As far as the world steel prices are concerned if you look at the last 6-7 months, you will see that the prices have gone up close to about $100 per tonne depending on different products it changes and in India, those numbers are more like $120. The market is buoyant and it seems to be able to absorb this. So right now things are looking quite positive and there is no reason to assume that in the coming few months’ things should change differently.

Romil Jain: Thank you.

Moderator: The last question is from the Gopal N from SBI life Insurance. Please go ahead.

Gopal N: Sir my question is on power segment so basically we have seen improvement in this quarter in the realization, but same is not getting reflecting in EBITDA, so can you just highlight what is the mix of say long-term PPAs and the merchant during this quarter?

Bharat Rohra: Yes, there have been two reasons for the reduction in the EBITDA. Number one is the long-term open access we had with power grid. Prior to this quarter, we had commitment with them of only 500 megawatts and start of this quarter from October onwards; we had a commitment of 1400 megawatts. So due to this our commitment charge for the open access has gone up to about 43 paisa per unit as compared to about 23 paisa in the previous quarters. This we are trying to offset by increasing the generation and when we reach the generation level of about 1500 megawatts, the entire amount gets adjusted against the energy that we are translating.

Bharat Rohra: And the second reason was the increase in the coal cost which has gone up to about Rs.2.15 paisa as compared to Rs.1.80 paisa in the previous quarter. So these are two reasons, which have impacted the EBITDA, but we have tried to offset it by increasing the volumes.

Gopal N: Okay if I understand right, do we have FSA and FSA coal should be at low price or we did not get any supply in FSA?

Bharat Rohra: FSA coal has also seen an increase of about 12% to 13% in these quarters, it came in the month of December and the quantities that we get from the FSA are about 70% of the quantity required so 30% as to come in from the e-auctions.

Gopal N: Okay and lastly can you just tell what the proportion of merchant sales and PPA is during this quarter?

Bharat Rohra: It is about 30% on the merchant and 70% on the PPAs.

Moderator: Thank you. Well that seem to be the last question I now hand the floor over to Mr. Sanjay Jain for his closing comments.

Sanjay Jain: Thank you everyone for being on the call and thank you very much Sir. You have any closing comments?

Nishant Baranwal: We would like to you thank you all for joining us today for this conference and with this, I will hand it over back to Sanjay. Thank for your support.

Sanjay Jain: Thank you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Motilal Oswal Securities we conclude today's conference. Thank you for joining us. You may now disconnect your lines. Thank you.