

**Jindal Steel and Power Ltd. Q3 FY-19 Earnings Conference Call**  
**Hosted by Prabhudas Lilladher Pvt. Ltd.**  
**Feb 4, 2019 at 12:00 pm**

**Operator:**

Good day ladies and gentlemen, and a very warm welcome to the Jindal Steel and Power Ltd. Q3 FY-19 Earnings Conference Call hosted by Prabhudas Lilladher Pvt. Ltd. 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 \* and then 0 on your touchtone phones. Please note, that this conference is being recorded. I now hand the conference over to Mr. Amit Khimesra from Prabhudas Lilladher. Thank you and over to you sir.

**Mr. Amit Khimesra – Prabhudas Lilladher Pvt. Ltd:**

Thanks Zaid. On behalf of Prabhudas Lilladher, I welcome all to the Q3FY19 Results Conference Call of Jindal Steel and Power. Without much ado, I hand over the call to Nishant Baranwal, Head of Investor Relations at Jindal Steel and Power. Over to you Nishant.

**Mr. Nishant Baranwal - Head Investor Relations - JSPL:**

Thank you Amit. A very good day to all of you. Today, we'd like to welcome you to JSPL's conference call to discuss our 3<sup>rd</sup> quarter and 9 months FY-19 financial results. Today, we have with us Mr. N. A. Ansari, our Joint Managing Director, Mr. Bharat Rohra, our CEO JPL, Mr. Sudhanshu Saraf, our CEO Steel, and Mr. Deepak Sogani, our CFO. We will begin by requesting Mr. Ansari to give his opening comments.

**Mr. N. A. Ansari - Joint MD - JSPL:**

Good day to all of you gentlemen. I'm very pleased to tell you, that our management has now been strengthened, and we have along with us, Mr. Sudhanshu Saraf, who has now taken over as the CEO of the Steel business, JSPL. He has an excellent background in terms of making improvements in various industries. To give you an idea about his background, he is an alumnus of IIT BHU. He did his Mechanical Engineering in 1987. He was master black belt in Lean and Six Sigma, and brings with him more than 30 years of experience in automobiles. Out of that, more than 12 years in Eicher and also more than 8 years in the financial services sector. Then, he has also been a management consultant. So he has excellent credentials to work with this company. And together, this management team is now quite strong to really take this company forward.

Now, let me also tell you about the kind of performance we had. Quarter 3, was a challenging quarter. We all knew what was happening in the steel industry in Quarter 3. But I'm very pleased to share our results with you, which despite those challenges, have been satisfactory. All the reports are available with you, but I just want to recapitulate some of those items. The standalone PAT is now Rs. 177 crores. Consolidated PBT is Rs. 14 crores. Our standalone EBITDA has gone up 61% year on year to Rs. 1480 crores and the consolidated EBITDA has gone up by 29% year on year. Our crude steel production has gone up by 26% year on year to 1.22 million tons, and the sale has gone up by 28% to 1.20 million tons. Turnover has increased by 58% to Rs. 6,745 crores. And EBITDA, as I mentioned, on a standalone basis is Rs. 1,480 crores, which increased by 61% year on year. EBITDA margins remain at 22%. And, if you look at the JSPL consolidated results, the turnover has gone up by 37% to Rs. 9,580 crores, and EBITDA has gone up by 29% to Rs. 2,077 crores, EBITDA margins remaining 22%. Oman EBITDA is 32 million, which is relatively down. But we will explain that in the coming paragraphs. Crude steel production in total is 1.68 million tons, including Oman and the sale has been 1.65 million tons.

So, if you look at the overall performance, it has been quite satisfactory. This performance has been primarily because of two major reasons. One reason was within the plant that we have improved our operating efficiencies, substantially cut down our costs, which took away most of the impact of the increasing cost of the raw material and the other one was in the market that we have improved our service very substantially, the product mix we include ensures that our NSR is maintained well, and that is how we have been able to manage our EBITDA numbers. So this is the steel performance for the quarter. I'm also very happy to tell you that in the month of January, our current run rate for production has already reached more than 6 million tons. So we are coming very close to our goals, and that's another good news that I wanted to share with you.

When we talk in terms of Oman, Oman's 3<sup>rd</sup> quarter performance, in terms of production is 0.46 million tons of crude steel as against 0.42 million tons which was made in the 3<sup>rd</sup> quarter of FY-18. And, the EBITDA has not been as much as what was there in the earlier years. Year on year basis it has come down, primarily because of the falling global prices. Middle East did see a very substantial reduction in the realization. In India we have more opportunity to play with the product mix. In Oman, we do that by selling more specialized rounds and specialized billets, etc. However, the Rebar prices are very important there, and that's what will determine what happens in that part. So the impact of the lower prices of Rebar can be seen in the numbers.

As far as Mozambique is concerned, we produced 0.45 million tons, which is close to about 1,50,000 tons per month basis. And in Australia, this was a time when we also undertook a lot of maintenance activities and produced approximately 86,000 tons of material in the quarter.

If we look at the steel scenario, you all must be seeing what's happening in the steel business. In the last year, about 70 million more tons of steel was produced in the world, Out of which, more than 50 million tons actually came from China. Since the Chinese demand declined substantially, leading to a substantial price decrease. The impact of that was seen everywhere. In India also, we did see the impact coming out of that. The good point is that, the level of

prices at which the Chinese have reached, there is really no margin for them to reduce the prices any further. In the earlier quarter they were operating close to about \$100 margin, and that margin is totally wiped off. So therefore, we believe that they have already reached the bottom, and from now on, we can only see improvement in the prices. In this particular quarter, we also see that there would be some headwinds without doubt, because of continued impact. There would be headwinds in terms of realization. However, we will continue to improve our cost. And on the ramping up of Angul performance, I assure that we can cut down our cost substantially and improve our performance while mitigating most of the impact. So overall, we certainly expect that there is a healthy business possibility which is there for this quarter also.

With this, I will conclude my opening remarks, and request Mr. Sudhanshu Saraf to also add some words based on his understanding, and then we'll move to the Power business. Sudhanshu.

**Mr. Sudhanshu Saraf - CEO - Jindal Steel:**

Thank you Ansariji. Good Afternoon everyone! I'm very happy and excited about joining this team. I've been associated with this team since 2015 as a management consultant. So, I'm familiar with the plants, the minds, the people, and the challenges. I've been working with this team for long now and I've just taken on the executive role. I still see a lot of opportunity and I'm working on improving operational efficiencies in the plants as I still see a lot of opportunity there, as well as in the mines in Australia and Mozambique. The other area that I've taken on priority, is to reduce costs. Ansariji just shared that we have covered good ground on reducing our costs. So, I'm taking that further on to reduce those costs. The Angul costs have come close to the Raigarh plant, and we still see a lot of opportunity to reduce this cost further by about Rs. 2,000 per ton.

The other area, which probably may cause some disruption in the industry, is customer satisfaction. So, we have taken a huge drive on improving the side of customer satisfaction. So, I am very excited to do great work on all these areas and look forward to more such interactions with the team. Thank you.

**Mr. N. A. Ansari - Joint MD - JSPL:**

Thank you very much Sudhanshu. May I now request Mr. Bharat Rohra to give his opening remarks on JPL and the Power business. Bharat.

**Mr. Bharat Rohra – CEO - JPL:**

Thank you sir and good afternoon friends! The 3<sup>rd</sup> quarter of the current financial year has had mixed fortunes for JPL. The generation has gone up to 2,609 million units as compared to 2,427 units in the previous quarter. The turnover has gone up to Rs. 1,004 crores as against Rs. 911 crores in the previous quarter. The PLF has grown by 9%. From 32% it has gone up to 35%. The

NSR remains almost the same. It was 3.83 in the last quarter. It is 3.81 in the present quarter. However, the coal cost has played the mischief for us. It has gone up to 2.47 per unit as against 2.18 in the previous quarter. Due to this increase in the coal cost, the EBITDA is marginally lower at Rs. 273 crores as against Rs. 302 crores in the previous quarter. A comparison on year on year basis reveals slight drop in generation due to lower exchange sales, it has decreased from 2,982 million units to 2,609 million units. And turnover decreased from 1,172 crores to 1,004 crores. However, the NSR has gone substantially up from 3.14 year on year in the previous quarter, to 3.81 per KWH. But, the increase in the coal cost has been more, and it has gone up from 2.15 to 2.47 in this quarter. Thereby the EBITDA has gone down Rs. 356 to Rs. 273 crores.

The outlook for the 4<sup>th</sup> quarter is much better. JPL has received a 200 megawatt short term PPA from the 15<sup>th</sup> of January to 13<sup>th</sup> April 2019 at a good price. This has become operational w.e.f. 15<sup>th</sup> January, and we are providing power to Telangana under this PPA. With the winters being severe, there is demand from various discoms for the period from February to June 2019. We are L1 in another tender from CESC. We have also been participating in a few other short term tenders and expect to convert some of them into PPAs very shortly. Due to the government policy of Power for all, and also the forthcoming general elections, the 4<sup>th</sup> quarter of 2019 and the first two quarters of next financial year, are expected to give much better results for JPL.

Availability of coal towards the end of the quarter has improved as Coal India has come out with auction of a sizeable quantity of coal in special forward auctions, and JPL has managed to book about 7.5 lakh metric tons in these auctions. The production reported by Coal India in the 3<sup>rd</sup> quarter has also been about 30% higher at 156 million tons in Q3, as compared to 120 million tons in Q2. The long term outlook for the power sector appears to be pretty good as the government had set up a high level in the Power Committee to look into various issues being faced by the power sector. The Power Committee headed by the cabinet secretary himself, has come out with a few progressive suggestions, which when approved by the cabinet, shall help revive interest in the thermal power sector. The committee has also addressed the issue of payment of dues by various utilities and it is likely that REC and PFC, which are now in the merger mode, shall work out a mechanism for the liquidation of the dues from various utilities. PPAs, medium term and long term, which were missing for a few years, are now being issued. West Bengal has come out with an inquiry for 500 megawatts for 5 years. Also, PFC Consulting plan to aggregate about 10,000 megawatts of power from stressed assets in the next few months. And most of the stressed assets which have operational power plants, will soon be available to book capacities under this scheme. JPL is also eagerly looking forward to the same, and hopes to book a good quantum under this scheme.

Thank you gentlemen. I now hand over to our CFO.

**Mr. Deepak Sogani – CFO - JSPL:**

Good Afternoon everybody! I'm pleased to present to you a very strong set of financial performance for this quarter. In this quarter, our revenue on a consolidated basis was Rs. 9,580

crores, which has shown a 37% growth on a YoY basis. Our standalone revenues stood Rs. 6,745 crores, which was also higher by 58% on a YoY basis. Our EBITDA on a consolidated basis was Rs. 2,077 crores, which is 29% higher on a YoY basis. And our standalone EBITDA stood at Rs. 1,480 crores, which is 61% higher on a YoY basis. I'm also happy to report that on a blended basis, in the reported quarter, our NSR per ton went up by almost Rs. 1,700. And, we saw some additional cost elements coming in the current quarter. We saw the cost impact of around Rs. 800 in the current quarter on account of Iron. Iron ore and cooking coal also impacted us by around Rs. 500 and we saw some efficiency gain coming in to the extent of around Rs. 500. So, the total cost impact of Rs. 1,300 crores was muted to the extent of Rs. 500 on account of several efficiency inputs that came into our Angul plant. The net benefit that we saw was around Rs. 900. So our EBITDA per ton went up by almost Rs. 1,000 in the reported quarter.

I must also take this opportunity to give some colour on how the EBITDAs, the NSRs and the costs are moving forward in the current quarter. Clearly, there has been a decline in the NSR in Jan-Feb. We are seeing a decline of around Rs. 3,000-3,500 in the months of Jan-Feb versus December and almost Rs. 3,700. versus Quarter 3. So there is a significant decline that we are seeing in the NSRs in the given quarter. However, the good news is that our cost has come down quite significantly. In the first two months, this is January and February, the cost is appearing to be lower by almost Rs. 3,000 versus Quarter 3. We are seeing the cost already coming down by Rs. 3,500. Primarily, on account of the fact that iron ore prices had come down very significantly. And the full benefit of the iron ore price reduction will be seen by us in the reported quarter. So, on the basis of our understanding in the deduction of NSR, and also on our company's improvement in the cost, we are not seeing any significant deduction in our EBITDA happening in the current quarter. So, hopefully we will be able to see the current quarter also pretty much in line with the reported quarter from an EBITDA perspective. Obviously, some part of the current quarter is yet to be executed. But that's our understanding on the numbers.

Let me now move my commentary on the Capex side. On the Capex side, in the 9 month period, we had around Rs. 850 crores of consolidated Capex. And in the last 3 months, we've seen Capex of Rs. 100-150 crores. This is absolutely in line with our annual guidance where we said that we will do a maximum of around Rs. 1,500 crores of Capex in the current year.

Now let me move my commentary to the debt side. In the reported quarter, we have been taking out the foreign currency impact. So we will do the same in the current quarter as well. On a net debt basis, at the end of Q3, our debt has now slipped below Rs. 40,000 crores for this quarter, and constantly we are working on deleveraging our business on multiple fronts. Our consolidated net debt at the end of Q3 stands at Rs. 39,197 crores, which was Rs. 40,236 crores at the end of last quarter. So we have seen our debt go down by Rs. 1,039 crores on an absolute basis. In the last quarter, we had seen a foreign led reduction in our gross reported debt by Rs. 1,475 crores. That impact has come down to Rs. 905 crores. Therefore, on the actual reported debt in the numbers that we've given to you, on account of foreign exchange reporting, there is a Rs. 570 crores component that is also shown as a reduction by virtue of the foreign exchange impact reducing from Rs. 1,475 to Rs. 904. Therefore on the reported numbers, the debt is Rs. 1,609 crores down. But without foreign exchange, the debt is down by

Rs. 1,039 crores. From opening, our debt has come down by Rs. 3,235 crores. So that's the commentary on this quarter regarding the debt coming down.

I would also like to take this opportunity to give quick commentary on the shareholder pledge. I am happy to state that from the peak borrowing in the personal hand, the borrowing has come down by almost 15%. And we have sufficient, security, liquidity to handle any adverse situations in the markets. With that, I would like to conclude my opening comments. We look forward to questions from your side.

**Mr. Nishant Baranwal - Head Investor Relations - JSPL:**

Before we take the questions, a small request to everybody. Please refrain from data questions. We are always there at IR to answer those. Since we have the management here, let's ask more strategic questions. With that, I would request the operator to open the lines for questions.

**Operator:**

Thank you very much. Ladies and Gentlemen, we will now begin the question and answer session. Anyone who wishes to ask a question may press \* and 1 on your touchtone phone. If you wish to remove yourself from the question queue, you may press \* and 2. Participants are requested to use handsets while asking a question. Ladies and Gentlemen, we will wait for a moment while the question queue assembles. To ask a question, please press \* and 1. The first question is from the line of Atul Tiwari from Citigroup. Please go ahead.

**Mr. Atul Tiwari – Citigroup:**

Thank you sir. I have two questions. The first one is on your debt. It was slightly confusing. Can you tell what was your consolidated net debt in rupee terms as on September end. We have the December end number. And how much did it fall by, in rupee terms?

**Management:**

On a net debt basis, as on 31<sup>st</sup> December, our consolidated net debt stands at Rs. 39,197 crores. As at the end of September, the same consolidated net figure was Rs. 40,236 crores. Therefore, we've seen a reduction in our consolidated debt by Rs. 1,039 crores in this quarter. I think there is a bit of confusion on account of the foreign exchange treatment. So let me clarify. Every quarter, because of the foreign exchange volatility, the consolidated debt reporting on the actual numbers changes. So, as at the end of last quarter, due to foreign currency fluctuations, our consolidated debt became higher by Rs. 1,475 crores. We eliminated that because that was not real. It was only the foreign exchange impact of reporting the debt. So, without the foreign exchange impact, the debt last quarter was Rs. 40,236 crores. At the end of this quarter, the foreign exchange impact became a little lesser to Rs. 905 crores in the full year so far. Thus, in the reported figure, we have seen a further reduction in debt by Rs. 570 crores, on account of the reduced foreign exchange impact as reflected at the end of December v/s what was getting

reflected as at the end of September. Again, for clarity let me say, that without foreign exchange impact, the net debt has gone down by Rs. 1,039 crores in the reported quarter.

**Mr. Atul Tiwari – Citigroup:**

Okay sir, that's clear. My second question is on Angul DRI and the coal gasifier plant. Now that the blast furnace seems to have a stabilized going by the January run rate, when are you planning to fire that and what is the status of the coal supply for the gasifier?

**Management:**

We had already communicated earlier that once the blast furnaces stabilizes at a certain level, that's the time when we're going to start the DRI. You are absolutely correct, that the time has come now. So in this month itself, by the middle of the month, we are planning to start our coal gasification process. And subsequently, the DRI production should start.

**Mr. Atul Tiwari – Citigroup:**

And sir, what about the quantity and consistency of quality of coal for the gasifier?

**Management:**

Since we ran this process for quite some time and we have garnered very good experience, we knew what is required to be done. We have utilized that experience and we have obtained the coal based on the requirement. We have already piled up that coal in the plant. We have got the right kind of coal now. So we are very hopeful that we'll start it and this will be a very viable and sustainable process.

**Mr. Atul Tiwari – Citigroup:**

Okay sir, thanks a lot.

**Operator:**

Thank you. The next question is from the line of Rajesh Lacchani from HSBC. Please go ahead.

**Mr. Rajesh Lacchani – HSBC:**

Thanks for the opportunity sir. We can clearly see that the blended realizations were much higher and the Rebar prices had fallen yet the NSR has been much better. I just wanted to understand what was the value added product mix this quarter as compared to last quarter, and how can we reconcile the increase in NSR?

**Management:**

W As Angul is ramping up, we are making more of high grade plates. The NSR on those plates is significantly higher than the NSRs realized by us from the plates that we sell from Raigarh. So that one shift is already happening, which is increasing our NSR. Second, in the rail RUBM structured business; there has been no reduction in the NSR. Actually the NSRs have gone up because these are all profitable long term businesses. So given the blend that we are seeing between these two, our net realized NSR has actually improved. The other thing that has also gone up is the fact that we are focusing to improve our NSR to increased proportion of value added steel. So whatever steel we sell, we do value addition in terms of hardening it, reading it and adding other materials to it, etc. So as a conscious strategy, our team has been focusing to improve that proportion as well. So as a blend of these two product exchanges and value addition improvement initiatives at our end, what we have seen is an improvement in our NSR per ton, as we have reported to you.

**Mr. Rajesh Lacchani – HSBC:**

The second question was, on your full year guidance to FY-19. In the first nine months, the sales have been around 3.7 million tons and the production is closer to that. What could we think about the overall volumes for FY'19 and going forward in FY'20.

**Management:**

If you look at our Indian operations, we expect that in this particular quarter, we should be doing somewhere close to about 1.5 million or so. If you add this to the total in the previous 9 months in this particular year you will get close to around 5.2 or 5.3. That will be the kind of number which will come. In the next financial year, our target is to have a minimum of 6.5 in India. And, plus, of course somewhere close to about 2.3 to 2.4 in Oman. Going forward, that's the kind of volume we're looking at.

**Mr. Rajesh Lacchani – HSBC:**

Understood sir. That's it from my side. Thank you.

**Operator:**

Thank you. Ladies and Gentlemen, in order to ensure that the management is able to address queries from all participants in the queue, you are requested to restrict your questions to one per participant. Time permitting, you may return to the queue for your follow up question. Next question is from the line of Anshuman Atri from Premji Invest. Please go ahead.

**Mr. Anshuman Atri – Premji Invest:**

Thank you for the opportunity. My question is regarding the demand side. Are we seeing any slowdown in government-based demand on the retail side? We have seen few companies



having good production numbers, but they have missed out on the sales. So is there any weakness in the channel?

**Management:**

Quarter 3 was a challenging quarter in terms of demand issue. There were certain sentiments, primarily because the prices externally were coming down and people were just waiting and hoping that they will go further down and then they can place orders. Also, there was an issue related to liquidity. These two things combined together, primarily gave an impression that demand is coming down. There's no real reason for the demand coming down in India. The GDP growth still remains fairly strong and steel is certainly following it. Therefore, I really don't expect demand per se to come down. The prices would of course be guided a lot by what's really happening in the external world. And, as I had also mentioned, because I think the Chinese have already bottomed on their price, the prices are unlikely to go down any further. So both on this count, that demand within the country should improve, and also the international prices should not come down any further, we are very hopeful that this quarter should be quite reasonable. The market has still not picked up completely so you will find that the NSR prices will be under pressure, as was already mentioned by CFO in his opening remarks. But the good thing for us is that we have a big headroom potential which is available in terms of improvement. So we believe that we should not really have any negative impact at all.

**Mr. Anshuman Atri – Premji Invest:**

Thank you sir.

**Operator:**

Thank you. Next question is from the line of Ritesh Shah from Investec. Please go ahead.

**Mr. Ritesh Shah – Investec:**

Hi sir. Thanks for the opportunity. Sir, every quarter we have done better than the prior quarter. However, if we look at our full year guidance, we are way short both on Power as well as Steel. How would you reflect on this? And secondly, taking into consideration the next year's volume guidance. Do we take into account the DRI which you indicated will start in 15 days? And also, on Oman you had earlier indicated incremental gas allocation. If you could just couple these two questions into one, it would be great.

**Management:**

So you have talked about overall performance in terms of steel. I think we are reasonably happy with the kind of performance which is there. One of the driving factors for us is the Angul ramp up. And that ramp up is happening quite okay. As I have also told you, in the month of January we have already touched the run rate of 6 million tons. The next year we're talking about 6.5.

So we are really ramping up as per the plan.. Power, of course, has been an issue in terms of coal availability and so on. We are participating in all auctions and are also looking for all the linkages, etc. But we have still not solved that issue. We are only expecting that going forward; Coal India will be able to produce a little more. So, We'll be able to get some more coal out of that. As far as the Oman is concerned, we have got additional gas there. And because of that additional gas and the DRI, we have increased the capacity of DRI and we have also put an additional billet caster in Oman. So our capacity has gone up to 2.4 million tons. In terms of production in Oman, we are doing much better than what we were doing earlier. We will continue to ramp it up. As far as Rebar prices are concerned, which is the important product we have in Oman, It certainly is subjected to the current market scenario. We have now seen that the prices are firming up. So therefore going forward, there is quite a bit of hopes as far as Oman is concerned. Our margins in Oman will certainly improve in this quarter.

**Mr. Ritesh Shah – Investec:**

Sir, if one looks at steel, you indicated that we can do approx 5.1 million tons for the full year. This again is significantly lower than the 7 million tons guidance that you had given at the start of the year. Likewise, if one looks at power also, our guidance was 1,900 megawatts. We have just done 52% of it. Power we can understand because of external issues, be it coal or PPAs not coming through. But specifically on steel, this gap is still wide. So if you could provide some comfort of next year's guidance of 8.9 million tons. If you can explain why this gap and is there. Our guidance looks a bit more optimistic but it's a bit difficult. If you could provide some more colour over here, it would be quite useful.

**Management:**

We are not saying 5.1. We are saying minimum 5.2. It is actually more than that. I have already told you, in the month of January we reached a level 6 million tons in India. And in Oman, we are at 2 million tons. So practically we are already at 8 million run rate. So therefore, going forward, in the next year, there should not be any doubt at all in achieving the kind of numbers which we are talking about. 6.5 is India is feasible with the kind of ramp up which is happening in Angul. And in Oman, it is certainly possible because we're already at a 2 million ton stage. So going to 2.4 there, with the billet caster, which is already operational, certainly it's going to happen. So, now coming back to your question, which is, why have we not been able to achieve the kind of numbers which we are talking about. y We have been saying again and again that we want to make sure that the ramp up happens in a very cautious manner. We are talking about large glass furnace, making sure that the entire plant remains in a civil manner. So that might have taken little longer than what it might appear it should've taken. But then going forward, all I can tell you is, that we are already at that rate and there should not be any difficulty at all in achieving the number which we are talking about.

**Operator:**

Thank you. Next question is from the line of Pinakin Parikh from JP Morgan. Please go ahead.

**Mr. Pinakin Parikh – JP Morgan:**

Thank you sir. Two questions. The first is related to the debt part. Can you give us the reported net debt including all the foreign currency fluctuations, which are there? I understand that you're ticking it off and there is a dollar payment. So what would be the debt if we had to include the YTD currency movement that has been there? And I was just trying to understand the Rs. 1,000 crore debt reduction on a Q on Q basis. .If you remove the interest payment and taxes, it would be less than that. Have you seen any material working capital reduction or anything?

**Management:**

So Pinakin, let me first address your first question as to what is the reported net debt figure. Rs. 905 is the FX, plus Rs. 39,197. So the reported net debt figure will be Rs. 40,102 crores.

**Mr. Pinakin Parikh – JP Morgan:**

But sir, this would only be the foreign currency, which is there for this quarter. Last quarter also there was a similar Rs. 1,475 foreign currency.

**Management:**

Debt is a balance sheet figure, not a P&L figure. At the end of last quarter, the total foreign currency impact was Rs. 1,475 crores. At the end of December, the same figure has come down. At the balance sheet level it is Rs. 905 crores. And therefore, as I said in my earlier comments, in the actual reduction on a quarter on quarter basis, because of this foreign currency impact also coming down, the additional Rs. 570 crores reduction is seen in the current quarter. We can share this data with you separately as well. The next question you asked is, the way the working capital has impacted or where the cash has been utilized. I think that's the question you were dealing with, right?

**Mr. Pinakin Parikh – JP Morgan:**

Yes sir.

**Management:**

We had a consolidated EBITDA of around Rs. 2,000 crores. We had interests of around Rs. 1,000 crores that is payable. So around Rs. 1,000 crores remains. On a cash basis, our cash at the end of last quarter was approximately Rs. 947 crores on a provisional basis. And at the end of this quarter it is Rs. 507 crores. The cash in hand is amongst our global, Indian, and power businesses altogether and we were able to release some cash from the balance sheet itself. Pure cash assets came down by Rs. 440 crores. So we had Rs. 1,481 crores available with us,

with bank payments of about Rs. 1,000 deleveraging. Over and above, part of it is even above our scheduled repayments. So, in each quarter we are trying to see if we can make some more payments over and above our scheduled payments wherever possible. We also have capital expenses of around Rs. 150 odd crores. Acutally, our working capital number went up by around Rs. 300-350 crores. *Please note all numbers are provisional.* Because Angul is ramping up now, and we have increased our raw material in the balance sheet to support the ramp up and accelerate it. Also the CGP and the DRI combination will start shortly, as Ansariji mentioned. So we have been preparing again to build out a bit of inventory for that particular start out as well.

**Mr. Pinakin Parikh – JP Morgan:**

And lastly, is there any update on Oman disinvestment or bringing investors, given how the market is and the net debt guidance we have, now, how are we looking at the Oman part of that guidance?

**Management:**

First let me give a total picture and then I'll come to Oman. We had said that we will want to reduce around Rs. 12,000 crores of leverage into FY-19 and FY-20 put together. And we were saying that operationally we should be able to do 4500 crore and balance will be non-operational this year. So this year we were targeting around 5000 crore and next year around 7000 crore . I think this is what we have been saying in all our quarters and we are working as a management team very actively to deleverage ourselves. At the end of the last quarter we were at 3235 crore reduction and we are hopeful that we will be able to complete on an operational basis 4000 crore plus of deleveraged company. Other than the operational deleveraging we are working on few initiatives to raise some equity, quasi equity in Oman. The targeted amount is around 300 million dollars I think the project has been going on for the last 2-3 months. It's a mature project. The delivery date of that project is around March. So hopefully we should be able to conclude that transaction in March. By and large we are at an advanced stage of that transaction. When that transaction happens, part of it will get used for deleveraging as well. In addition to that we are also looking to restructure Australian debt which again adds around to the deleveraging part. So we are taking a few more initiatives to see if we can reach the 5000 crore figure this year itself. If we reach the 5000 crore figure this year, next year we will expect additional cash flow from the higher volume as we and Ansari jee just explained that we are already at a very high run rate, and next year we should be able to see better volumes from Oman also. Oman plant has also increased its capacity from 2 to 2.4. And in India also we should be able to certainly see additional 1.5 million or maybe thereabout volume. So with the additional cash flow that will come, from the higher Indian volumes and Oman higher volumes, hopefully we will be able to touch operationally a figure of maybe 5000 crore plus next year. Still we will become short and we will have to get that through non-operational restructuring or deleveraging initiatives. But we are working on all those initiatives as we have discussed.

## **PINAKIN PAREKH – JP MORGAN**

Sure. Thank you very much.

## **MODERATOR**

Thank you. Next question is from the line of Bhavin Chheda from Enam Holdings. Please go Ahead.

## **BHAVIN CHHEDA – ENAM HOLDINGS**

Good afternoon, sir. Good set of numbers in a challenging environment. Sir two questions. First you said that your current steel prices are 2500 to 3000 down in Jan-Feb versus Q3. But your cost is also coming down by similar numbers so, are you expecting a similar Ebitda number in the standalone operations as it is in Q3? Continuation of that question, you said the Angul cost is now similar to Raigarh and it may come down by Rs. 2000. So when do you expect this further reduction of Angul cost by Rs. 2000?

## **MANAGEMENT - JSPL**

I think all of us are aware that the iron ore prices have come down quite significantly. Over the last quarter, in line with the reduction in the NSRs of the business, raw material cost also will go down with a lag effect. In quarter 3 we were able to see some benefit in the reduction of the iron ore prices and also in the coking coal prices. But in this quarter we are seeing significant impact of that coming in because right from the beginning the iron ore prices are low. Last quarter we had a blend of old prices and new prices. This quarter we are starting fresh with the low prices on the iron ore side. So based on that, iron ore, coking coal and some other input costs are already helping us. And in the number that we are seeing right now at the end of Jan and the current month in Feb; we are witnessing about Rs. 3000 reduction in our steel cost which is a function of many things. Let me say what all contribute to the reduction. That's your second question. Clearly Angul cost used to be higher than Raigarh in the past because it was operating at a lower volume. We had started seeing our Angul cost becoming comparable with the Raigarh costs. Already there is some benefit coming in on that count which is improving our total cost of producing the steel. Second as Sudhanshu mentioned, we are working on several operational efficiency initiatives which deal with improving the blast furnace cost component, and with improving the yield from the mills etc. So, based on the multiple initiatives that we are seeing, we will surely see some improvement coming in. The third component is Angul. Once Angul is fully mature and ramped up and today if it is competing with Raigarh in terms of cost and balancing it there, we will want to see that about Rs. 2000 below Raigarh. And Angul mix will be higher than Raigarh in the next year for sure. Raigarh will do around 260-290 in that zone. But Angul already is crossing that level and in this quarter. Therefore, next year certainly it will operate at about 3-3.5 lakhs on an average. So, with that higher mix coming in and lower cost of Angul we should see some more reduction happening in future. I guess as a matter of fact the situation is clear that there is some reduction in the NSR as we spoke. Our product mix will improve due to more and more value added; some of the market led deductions in the NSR

will get muted for us. But at the same time we are clearly seeing almost Rs. 3000 cost reduction as we sit today. Obviously I can't talk for what will happen in Feb and March. But Based on what we understand today on both NSR and on the cost side I am sure we will be able to keep our EBITDA in 4-5 digits range. But maybe there will be a marginal reduction, of around 500-700.

**BHAVIN CHHEDA – ENAM HOLDINGS**

Sure. The second question is if you can update us on the Australian coal operations because that has not performed in line with our expectations for last 12-18 months and I think in this quarter you had a shutdown also. So if you can give us some kind of a volume run rate at coal and also an update on the fixed costs that are there at Australian operations, and when would that break even or start contributing to the overall numbers.

**MANAGEMENT - JSPL**

Great question. That is one area, which is in tremendous focus from our management team perspective. Several things have happened in the last 1 year. One, we have started making visits almost every month. We have had huge operational improvement in plants there with which I see that in the next 2 quarters we should be able to clock 70,000 tonnes a month pretty easily on which we are currently struggling at around 30-35 thousand tonnes a month..The reliability of our belts which take the coal from 15-16 kms inside the mines to the surface, the downtime in that used to be about 45% which has been brought close to about 12%.. So 70000 is what we are actually seeing in the next 2 quarters which will we will further ramp up to 100000 and our plants and everything is absolutely in place so we have a very high confidence on that. There are a couple of other levers that we have on Australia front. One is the land that we have over there is a very prime land with ocean view and a golf course next to it. So we are in discussion with people on how to unlock value on that front. The second area that we have is the restructuring that we are actually doing on the debt side.

**BHAVIN CHHEDA – ENAM HOLDINGS**

Thanks a lot and best of luck.

**MODERATOR**

Thank you. Next question is from the line of Sanjay Jain from Motilal Oswal Securities. Please go ahead.

**SANJAY JAIN – MOTILAL OSWAL SECURITIES**

Hi! In case of Oman could you give some colour on how the cost of production is moving? Because pellet prices have come down and cash price is also linked to the steel prices to some extent. So how is that equation moving?

**MANAGEMENT - JSPL**

So you see in Oman there are two major costs. One is the pellet and the other is gas. Now we already have gas availability at a reasonable price. The real variable is the pellet price and these pellets are the DR grade pellets which are there in the market. There are a number of players who are supplying this. So, it is a question of availability of those pellets in the market and the

price accordingly. If you look at the entire last year's movement of index, the movement was somewhere within \$60-\$70. Part of it has gone up a little bit on the back of the news of Vale issue which was there. So such things can happen in this world of pellets and there will be some sentiment attached to it thus there will be some changes. But, then it just gets very quickly corrected based on the supply demand scenario. So coming back to Oman cost there are two parts which is happening. One is that because they are improving their performance on a regular basis and they are increasing their productivity, their overall fixed cost is coming down and at the same time they are working very actively on the conversion cost. Based on the pellet prices which will change in the market which in a way also has a direct impact on what's happening on the rebar prices. If you look at the kind of spread, it does change. But there is a relationship. If the pellet prices change there is a certain lag attached to it and hence, the rebar prices and the black sea pellet prices also tend to change. So, therefore rather than talking about cost per se I would be talking more about the kind of margins which are there. The current margins which are there should certainly be better than the quarter 3 margins. That's the point.

**SANJAY JAIN – MOTILAL OSWAL SECURITIES**

Got it. Can you share January production for India business? Absolute amount.

**MANAGEMENT - JSPL**

This discussion is for the last quarter so we really don't want to get into that detail, except just communicating to you that in the month of January we have already gone over a run rate of 6 billion in India. And that's the news, which I really wanted to share with you.

**SANJAY JAIN – MOTILAL OSWAL SECURITIES**

Thank you.

**MODERATOR**

Thank you. Next question is from the line of Meera Medha from Edelweiss. Please go ahead.

**MEERA MEDHA - EDELWEISS**

Hi, thank you for taking my question. I have two questions. You mentioned sir that the DRI plant and the CGP will be starting later this month. What will be the volume implications and the cost implications of the same?

**MANAGEMENT - JSPL**

We are going to start the DRI plant with the intention to keep pushing the production.. Initially we will be starting with a smaller number and we will keep pushing it up. So as far as volume is concerned we have already told you that we are talking about 1.5 million tonnes in this quarter. With regards to cost, this cost maybe marginally higher than the blast furnace cost. But the important thing is that the product is still going to give us substantial margins and therefore it makes complete sense to start this and make money out of it. So, volume obviously is going to go up and it is going to contribute to 1.5 million tone. And this cost even though being marginally higher than the blast furnace will still be good enough to give us good returns.

**MEERA MEDHA - EDELWEISS**

Alright and sir my second question is in terms of pellets. So what was our realisation and what's our strategy with respect to pellet sales moving on?

**MANAGEMENT - JSPL**

We are not talking about separate numbers of pellets. But the important thing is as our production increases in India, we are utilising more and more pellets and only the remaining pellets are going to be sold out. Our external sales will be less than 50%. Most of it will be utilised in house primarily.

**MEERA MEDHA - EDELWEISS**

Alright. Thank you so much sir.

**MANAGEMENT - JSPL**

Thank you. Next question is from the line of Mudit Kedia from Upward Capital. Please go ahead.

**MUDIT KEDIA – UPWARD CAPITAL**

So we did some guidance on the iron ore prices and noticed that close to 66 mtp of iron ore captive mines will expire by 2020. The Brazilian company has also said on 30th Jan that it will reduce its production of iron ore by 10%. So, brokerage houses are saying that the iron ore price in the international market will go up by \$5-10. We wanted to understand what would be the affect in the company's EBITDA margins once the iron ore prices go up.

**MANAGEMENT - JSPL**

If we look at it, in a way, there is often a major disconnect on the iron ore prices within the country and internationally. So, last year when the international iron ore index price was between the mid-sixties in India the iron ore prices went up very, very sharply and then it also started coming down. So even though there could be an impact of iron ore prices externally going up a little bit, in India we do believe that it is actually not going up at all. It is actually going to come down because they had already taken these numbers to a very high level which was not a sustainable number. So that's number one. Number two is, you are absolutely right that by 2020 the number of mines which are currently commercially being operated, would no longer be with those owners. And this discussion has already taken place along with the government. They are very actively looking to find solutions by maybe auctioning it to the steel plants or whatever. But those solutions are going to come very soon. Certainly, much before the expiry of the lease period. And therefore, it gives us a lot of comfort that there would not be any major hassle in getting the iron ore as required.

**MUDIT KEDIA – UPWARD CAPITAL**

Okay thanks a lot.

**MODERATOR**

Thank you.



**MANAGEMENT - JSPL**

May I request for the last question please?

**MODERATOR**

Sure sir. We will take the last question from the line of Pallav Agarwal from Antique Stock Broking. Please go ahead.

**PALLAV AGARWAL – ANTIQUE STOCK BROKING**

Good afternoon. I had a question on your other comprehensive income. If I read the notes to accounts there's been an increase of some 4200 crores on account of an overseas subsidiary. So which subsidiary is this exactly and will this increase our net worth as well at a consol level?

**MANAGEMENT - JSPL**

Yeah I think that is primarily on account of the business in Oman which was setup 7 years back and thereafter we've done a lot of value addition and increased the capacity. So in the books, Oman business was valued at around somewhere around 0.8 billion dollars which is quite less compared to the market value of 2.4 billion integrated steel plant in that region. And based on review by the valuers, the carrying cost of the Oman business has gone up quite significantly and therefore what you're seeing there is a revaluation of the Oman business.

**PALLAV AGARWAL – ANTIQUE STOCK BROKING**

Okay so this will reflect in FY19 net worth as well.

**MANAGEMENT - JSPL**

That is true, that is true.

**PALLAV AGARWAL – ANTIQUE STOCK BROKING**

So will our depreciation cost also increase from next quarter onwards?

**MANAGEMENT - JSPL**

Yes it will.

**PALLAV AGARWAL – ANTIQUE STOCK BROKING**

Yeah. Sure. Thank you.

**MODERATOR**

Thank you very much. Ladies and gentlemen that was the last question. I now hand the conference over to the management team for closing remarks. Over to you.

**MANAGEMENT - JSPL**

So, it was as usual, a pleasure to speak to you guys and once again what we want to communicate is that despite the difficult situation, the company has done quite well. The results have been satisfactory. And, we have a very strong management team and very

committed promoter, which we have who spends a lot of time in this business. And, therefore together we are very, very certain that we will continue giving good results in the coming quarter and coming year. So thank you very much once more.

**MANAGEMENT - JSPL**

Thank you guys.

**MODERATOR**

Thank you very much.

**MANAGEMENT - JSPL**

Thank you.

**MODERATOR**

Ladies and gentlemen on behalf of Prabhudas Lilladher that concludes today's conference call. Thank you all for joining you and us may now disconnect your lines.

**END**