

INVESTOR RELATIONS GROUP

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Operator

Good evening, my name is Joanna, and I will be your conference operator today. At this time, I would like to welcome everyone to the Jindal Steel and Power Limited Conference Call. As a reminder, this call is restricted to institutional clients of Barclays and should not be attended by press or media. Participant comments are not for attribution. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session.

[Operator Instructions] Thank you.

Mr. Chirag Shah, you may begin your conference.

Chirog Shah

Thank you. Good afternoon and thank you everyone for joining this call. It is a great pleasure for us to host the top management of Jindal Steel and Power. I would request Bala to introduce the management participants before we begin our discussion.

Over to you, sir.

Balsubramanyam Danturti

Thank you Chirag. Ladies and gentlemen very good morning, good afternoon, and good evening from the places where you are. Welcome to the Jindal Steel and Power Q1 FY16 results conference call. Today, we have with us, our Managing Director and Group CEO, Mr. Ravi Uppal; Mr. Rajesh Bhatia, CEO Global Business; and Ms. Vijaya Gupta, Deputy Chief Financial Officer.

Without wasting time, I would now request our Managing Director and Group CEO to give his opening comments, post which, we will open the floor for question-and-answers. So, over to you, sir.

Ravi Uppal

Okay, thank you. Thank you, Bala. A very good afternoon ladies and gentlemen, thank you for joining us today with the conference call for the presentation and discussion on the quarter one results of year 2015-2016. We made a press release yesterday, I'm sure that most of you have had the opportunity to look through that, but let me recap to you some of the important facts from the last quarter's results. There was a major focus to see that the capacity that we have built up in our new plants in Angul and Oman that we make full use of it. Although the market conditions have been very challenging both locally and globally, we still managed to increase our production of steel by 37% during the first quarter.

The Indian plants' day-to-day production went up by about 12%, whereas the rest of the production increase came from Oman plant. The sales were also proportionally higher by 37%. I'm happy to report that our pellet plants in Barbil also swung into action and they also recorded a much higher production compared to the previous quarter Q4 and also the corresponding quarter last year.

The market conditions were very challenging. China had a huge surplus steel to dispose of and they were dumping steel. So, that had an adverse impact on the net sales realization. And so all these things put together resulted in net PBT and PAT of the Jindal standalone business to post a negative result. But the silver lining to the whole thing was that despite very challenging conditions, we managed to increase our EBITDA level to 23% compared to 19% that we had last quarter, both on a standalone basis as well as on a consolidated basis.

Our global operations also looked up. The production in South Africa increased during the first quarter and also in Mozambique, operations had resumed. We have completed remodel of our production model there, so they also produced a positive impact. The production in Australia also was started. And Oman plant, as mentioned earlier, posted a very good result. So, our note on the global business, the performance really looked up and I think we are set on course now to report better and better results in the quarters to follow.

As far as the power business is concerned, as you know that consequent to the suspension of the coal mines in the last quarter, we obviously had to rewrite the whole act. We had to resource our coal from – partly from linkages that we have got, the 1200 megawatt. For the rest of it, we had to source the coal from the coal auctions locally and some coal also came through import.

So the Phase I units, they operated at PLF of 45%, whereas the other unit operated at about 30%. But since then, things have started to improve. I'm very happy to tell you that as we sit here and we talk about the performance, we have three units of 250 megawatt of Phase I, which are running and I do foresee that we will continue to run at 75% of Phase I.

And we also have, as I said, 600 megawatt unit of EUP II is a concern. I'm hoping that we will touch it close to 50% compared to less than 30% that we had in the last quarter. Notwithstanding that, we still managed to post a positive performance on the power business and I do hope that in the weeks and quarters to follow we'll post better performance.

My own assessment is, with the way things are getting better, that by the end of the third quarter, we should be running all the four units of 250 megawatt and at least two units of 600 megawatt, which basically means, all put together here, the two Phase I will be at 100%, another at 50% and if you take the aggregate capacity

of 2,800 megawatt for which we have the COD, our total capacity utilization will be in the range of 75%, which I think is a very good trend.

The efforts continue for us to ensure better utilization. And the good news is that power evacuation constraints which were there, we are gradually overcoming them and the 400 megawatt which was to be transmitted to Tamil Nadu where we have a running PPA. The government has given us access for evacuating the power before they indicated earlier which is October. So already in the month of July, they allowed us to go up to 225 megawatt and we are hoping that the rest of the capacity up to 400 megawatt will be made available by September 1.

So the access to transmit power will come handy. And we have also set our units on a very stable performance condition. Wherever opportunity is coming, we have also been sort of transmitting power now. Very recently that in the month of June and some part of July, we have also had the opportunity to export nearly 350 megawatt more at a premium rate to the Southern states, a special access was given.

So the company is not letting go any opportunity which comes to ensure that we have a constant improvement of the plant load factor. So I think going forward, all-in-all, the power plants are set to improve. There are some good power PPA enquiries which are on the way. We have enquiry from UP as well as from Rajasthan – from Bihar & an enquiry from Bangladesh. We have long-term contracts and short-term contracts. All this taken together and given our position of vantage, we're relatively quite hopeful that we should be able to home in with some more PPAs.

All the units whether it is power or it is steel or global operation, we have launched a massive campaign to cut down our costs, which is need of the hour and they have also helped us to shore up our earnings in the quarter, which has just gone by. So that offer continues to be there. So I'm hopeful that we will do everything to sustain our EBITDA level. Let me not say – the trend is that everything is hunky-dory.

As you know from the media coverage and other reports that there is tough competition globally on the battles front and the Government of India has been raising the custom tariff, one tariff raise was done yesterday. The entire industry is putting full pressure on the government to make them – see the reality and we are quite hopeful, government very soon will look very seriously into the issue of the safeguard duties for which the representations has been made to government for covering virtually all the important products.

So while we are not waiting for those things to come, I think on our own, we are trying to reduce the cost so that in our own right, we are competitive and we are able to take the competition head on. So in final conclusion, I would say that the company is extremely focused to preserve its EBITDA levels and to ensure better cash flows. We have, as we said in the previous meeting, we are very mindful of any capital expenditures that we do now. We have put all our plans for any major project on the hold at this moment so that we can keep any additional capital expenditure to the barest, barest minimum.

So on the working capital side, there's a massive campaign within the company to make sure that we have an efficient level of working capital and any fat out of there can be cut out. That would also help us to reduce our debt levels. So there's an all-around effort on one side to improve the operational efficiency, have efficient management of the capital that we have so that the company remains at the forefront of good performance and I'm sure that in the quarters to follow, we may have a better performance to report to you, to our stakeholders.

So, that is the brief I wanted to give and I would request my colleague our Global CEO of the Global Ventures, Mr. Rajesh Bhatia to sort of make any comments he would like to add now.

Rajesh Bhatia

Thank you sir. I think the Global Ventures part of the business also, as Mr. Uppal said, did much better this quarter as compared to some of the previous quarters given the ramp up of the capacity utilization at the steel plant and we had, from the last quarter, I think we had about almost 4.5 times increase in the production from estimates and the Oman plant continues to get benefits from the cheaper iron ore prices and even on Mozambique as well as South Africa also, we've tightened the noose. We've reduced our operational costs which helped that – even at the Mozambique operations even at the current level we're breaking even. South Africa is consistently making profit.

And on Wollongong Coal, these started production from the Russell Vale coal mine this quarter. And Wongawilli, we also had a major breakthrough in terms of terminating the existing enterprise agreement with the union paving the way for a new contract-based mining there which will be about 30% to 40% cheaper and we are very close to concluding contracts with the contractors over there and even at the current prices, I think this operation will be reasonably profitable.

So overall, Global business this quarter has performed better, both in terms of the operating performances, the capacity utilization levels as well as managing cost and reducing and managing the cost drastically.

Ravi Uppal

All right, thank you Rajesh. You know that our CFO was supposed to join today but he has a bereavement in his family, which happened yesterday night, so he couldn't join. But we're happy to have with us Ms. Vijaya Gupta, she's our Deputy CFO. Vijaya, would you like to add your own comments?

Vijaya Gupta

Thanks, Sir. And welcome everyone, once again, to the conference call. I would just give a brief overview of the performance we had this quarter versus previous quarter, versus Y-o-Y. There is severe pressure on prices still. There was a 14% drop in NSR. There was increase in iron ore prices and increase in coal prices, which we saw. But still, we were able to post 23% healthy EBITDA, and this was possible because of savings, as we said, in stores and spares and manufacturing expenses, and this endeavor will continue and we are on a massive drive of cost reductions.

So we see at least 10% reduction in costs in the coming months and even better and on working capital front, that will help us ease out surplus cash and there is help in improving the liquidity situation. So we see around 15% to 20% improvement in working capital in the days to come.

Ravi Uppal

Very good. Thank you, Vijaya. I'd just like to add one more comment to what you just mentioned, because I'm sure this question must be up in the minds of all our stakeholders. The coal prices, even in auction, have

gradually started softening. The good news is that Coal India has started mining 12% more coal on a quarter-to-quarter basis compared to last year. This will ease the availability of coal in the market. Government is choosing to put more and more coal on the auctions. And JPL located in the heart of all the mines in Chhattisgarh, we have easy access to all the coals. So therefore, our own coal stocks had been a healthy 30 days coal stock. We always have a resource – coal has not been much of an issue so far.

The second thing I'd like to add is in regard to the iron ore fines. As you know that in the start of January, February, the iron ore fines have touched an all-time high, but since then, lot of bans on mining have been lifted, especially in the state of Odisha, virtually all the mines have got operational. So there is a good availability of mines in the market. And it has also led to a substantial decline in the prices of the iron ore fines. And I would say that in the last – if you look at the numbers of last nine to ten months, I think that the prices that the iron ore fines are almost close to the lowest at the end of last one year's time.

So material availability is getting better. The prices are getting more reasonable vis-a-vis the iron ore prices internationally and what the Indian industry can afford at this moment.

Vijaya Gupta

And we're sweating our assets more.

Ravi Uppal

Yes, the focus as in the past continues to sweat our assets get higher production because these things will also help us to bring down our fixed cost on a unit basis.

Balasubramanyam Danturti

Yes, now we open the floor for question-and-answers. Request everybody to restrict their questions to two so that others can get an opportunity to speak. Those who have been left out, please mail your queries to the IR Department, we will get back to you.

Question-and-Answer Session

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions] The first question comes from the line of Atul Tiwari from Citigroup. Please ask the question.

Atul Tiwari

Yeah. Good evening, sir. Sir, my question is on company's efforts to reduce costs, both in steel and power business. Though ma'am shared some very useful data points on the cost reduction drive, but it will be more helpful if you could elaborate on what are the levers available to you to reduce cost of production besides the fall in cost of raw materials? What else you can do in your – both steel and power business to reduce the cost of production?

Ravi Uppal

If you take steel, other than the raw materials where we are correlated the conversion cost, the conversion cost is the cost of the power that we use, the fuel we use, the gas we use and any additive materials which are there, the labor – direct and indirect labor. So, that's a pretty substantial cost. I mean, that's the only cost other than the raw material cost which adds up to total cost of steel. So, we have taken major steps to cut down cost of energy. Let me give you an example.

In Raigarh, we have been having arc furnaces which have been using DRI along with hot metal to produce liquid steel. We have now switched over to a technology, which basically converts arc furnace to produce liquid steel after a hot metal is added by lancing oxygen so that we don't need power anymore and with the oxygen lancing into that, it acts like a basic oxygen furnace .

So, this means that on every furnace, we will be able to save 50 megawatt of power in its operation. So, this means that – we have three furnaces and we would eventually be saving 150 megawatt of power. If you want me to translate this into the money terms, this essentially means, the total cost of producing liquid steel will go now under Rs. 1,500 per tonne.

So it's basically an initiative that we have taken. We are comparably siezed on in the matter of stores, consumables. There was a time that we used to be looking on the excess side, not pay as much attention as we should have, but now we are going pretty tightfisted on these things.

And thirdly, we have a major initiative which is under way, what we call as the manpower rationalization and productivity enhancement program whereby the multi-tasking will gradually be introduced so that the productivity of our people increases substantially. So these are the kind of examples that we are resorting to, to make sure that if there is any room for us to reduce the cost as a part of the conversion cost, we should do it.

Thank you, Rajesh. My colleague Rajesh Bhatia just reminded me one more instance. Transportation cost has been a very major factor. For example, many of these places, we have truckers who are bringing in iron ore, bringing in coal, and many of them have been unionized and they are absolutely unrelenting. So what we have done is we have setup our own transportation company and whereby the tariffs can be brought down. For example, if we were paying Rs. 325 per tonne of the coal transported from the mine up to our power plants on, we will be able to bring it down to Rs. 250 per tonne and that translate into substantial savings.

Operator

Thank a lot and...

Rajesh Bhatia

Atul, you there?

Atul Tiwari

Yeah, hello, yes sir, I'm here. Can you hear me? Thanks a lot the answer was very useful. Just one more question. We read in the newspaper that on this transportation costing there was a strike by truckers in Orissa, which have impacted supply of iron ore to various pellet plants. Are we also affected that and is that?

Rajesh Bhatia

It won't have – it was there for about 10 days in the month of July because the government of Orissa has taken a very serious view of the exorbitant rates charged by truckers for carting iron ore over short distances and there is an order from the state government asking transporters to slash the cost levels in accordance with the norms laid down by the government. And in protest against that, that truckers have gone on strike, but now the government has invoked Essential Services Act. All the truckers are supposed to get back to the job, which they have done and the government is not willing to relent on the new freight rates, which they have been reduced.

Atul Tiwari

Okay, sir. Thank you, sir. Thanks a lot for answering my questions.

Operator

The next question, the next question will be from Chirag Khasgiwala from GMO. Please ask the question.

Chirag Khasgiwala

My first question, per se pertains to the Debt level. What is the current consolidated debt position? And considering the bare minimum CapEx and the sustaining CapEx, which you have to do going forward, so what could be your peak debt and how can we see the trend going forward for the debt?

Rajesh Bhatia

I think, Mr. Uppal explained that we are very conscious of the fact that we are not taking up any projects. So it's only largely the sustaining CapEx or the CapEx which is emanating, remaining from some of the projects, like project at Oman. Apart from that, there is nothing major on this. So we're hopeful that we will be able to sustain our current levels and not increase the debt anymore.

Chirag Khasgiwala

Can we assume the peak debt could be about INR46,000 crores, or so?

Vijaya Gupta

[Multiple Speakers] As he has mentioned, capital requirements and of course the CapEx will be what we have for Angul, besides that, it does not have any additional CapEx.

Chirag Khasgiwala

So, basically considering the working capital requirements and all, could the debt go to as high as INR50,000 crores or it will be lower than that?

Vijaya Gupta

Lower

Rajesh Bhatia

What we are saying is rather we're working on reducing the working capital. When we started earlier this year, the whole situation was different and we had to adjust to a new circumstance and we started stocking lot of coal and now that there is a flow being established how to get it, what is the best port, the transportation and all that, all that being sorted out. We will reduce our inventory levels on the raw materials as well as the finished goods also.

So, I think working capital management is what is the key and as Vijaya said earlier that we're looking at 10-15% reduction on our working capital levels, which will release a lot of cash which is available for doing some sustaining CapEx or reducing the working capital limits and all.

Chirag Khasgiwala

In absolute terms, can you give me what could be the peak debt level?

Rajesh Bhatia

INR46,000 crores.

Chirag Khasgiwala

INR46,000 crores? So, that could be the peak right? It may not go up from this level?

Rajesh Bhatia

Yes. Notwithstanding Currency value, currency fluctuation

Chirag Khasgiwala

And in terms of your PLF in the power business, what are the current PLF that you are operating and considering the fact that you don't have coal mines currently, so what could be the PLF going forward? Could it be at the same level or could we could be assume it to increase?

Rajesh Bhatia

In this quarter, for the Phase I, we are expecting the PLS could be between 72% to 75% and for the Phase II, I'm expecting it between 45% to 50%. And in the subsequent quarters, as I said that by the end of the third quarter, we were expecting that we will be having close to between 95% to 100% for the first phase four machines of 250 megawatt and the other one will be about 50% to 60%. So it is progressively improving.

Chirag Khasgiwala

Despite the non-availability of captive coal?

Rajesh Bhatia

Yes. Despite the non-availability of captive coal. Because as Mr. Uppal explained earlier, there was – initially when we started in April without bringing on captive coal mines, there was a transition, we took time to ramp up the coal sourcing and all that. But today, we are saying that we can source the coal enough to do about – on a 3400 megawatt capacity about, 50% on an overall basis, we are easily sourcing that, there are no issues on that.

Vijaya Gupta

This coal availability has increased. And we even expect lowering of prices on the procurement of coal.

Chirag Khasgiwala

Okay, thank you. That's it from my side.

Operator

Your next question comes from the line Saumil Mehta from IDFC. Please ask the question

Saumil Mehta

Sir, my first question is the subsidiary EBITDA has seen a substantial jump on a sequential basis, we had reported a significant loss in Q4, whereas this quarter, if I do a consol minus standalone minus the JPL numbers, I get about INR130 crore, INR140 crore of EBITDA. So, which are the subsidiaries which have seen the significant turnaround and how sustainable is the improvement in profitability?

Rajesh Bhatia

I think largely, as I said that Oman steel production is much higher this quarter and also even in South Africa the production levels are much higher as compared to the previous year-on-year quarter. But the biggest thing is in Australia, where we started doing the longwall and we started producing the coal and that's where we had much better numbers overall for the global ventures. All the three businesses have contributed to that, but I think the biggest thing came from Wollongong Coal, where we started producing longwall coal this quarter.

Saumil Mehta

Can we have the EBITDA numbers for all the three overseas mines as well as Shadeed, because we use to give that number earlier in the presentation, which I can't find for this quarter.

Rajesh Bhatia

We'll tell Balasubramanyam to mail you those numbers.

Saumil Mehta

Sure. Sir, my second question is with respect to – if you can break down the debt into standalone, JPL and the global mining ventures for the existing gross debt number?

Ravi Uppal

Well, the total debt breakup is that JSPL standalone is about INR27,800 crores. JPL is about INR5,400 crores and global ventures are about INR11,380 crores. So, all totals about INR44,600 crores.

Rajesh Bhatia

So, this includes everything. This includes short-term, long-term, working capital, everything. This is not only the long-term, but includes the working capital as well as the short-term debt working.

Saumil Mehta

So, this is the gross debt number or the net debt number?

Rajesh Bhatia

This is net debt.

Saumil Mehta

Okay, and sir, the standalone, which is INR27,800 crore, do we have any covenants because if I look at the existing EBITDA number and even if I build in a significant increase in profitability and I analyze it, we should be at the net debt-to-EBITDA more than 7 times or maybe 7.5 times.

Rajesh Bhatia

Domestic debt, just last week it is 99% domestic debt and there are no covenants as such. You know normally what happens in a foreign debt and all.

Saumil Mehta

Okay, okay, okay.

Rajesh Bhatia

There are covenants but not the kind of ones debt-to-EBITDA and all that, there are you know, as the public sector banks are largely there so that the numbers are – the covenants are more on a FACR and what is the total net worth rather than on the profitability index.

Saumil Mehta

Sure. And sir, my last question if I may, if I look at the other expenses in standalone that has again come down very, very sharply. So are there any one-offs? I'm talking from a sequential basis.

Vijaya Gupta

The biggest one there is reduction in manufacturing expenses, repairs and maintenance and freight costs are the primary reasons why they have come down. So that's what we were saying, it's come down by INR100-odd crores versus Q1. The main reasons are these.

Rajesh Bhatia

Also keep in mind that especially modernization of our Raigarh plant and all. So that also helps us in terms of reducing the consumption of the various stores, spares and all that because we just completed that modernization.

Saumil Mehta

Got it, got it. And should we expect further cost savings from the INR100 crores in Q1 or probably we have no more or less retained the cost savings.

Vijaya Gupta

Yes, because we are on a cost optimization drive, so we are looking at efficiencies in all the areas. We want to better the best achieved in last 12 months and we are focusing towards that. So that should see all round improvement in all the consumption norms and efficiency parameters.

Rajesh Bhatia

You will see, as Mr. Uppal explained, that we're doing a modification in our steel making in Raigarh where we are using less of the power by process modification. The full impact of that will be felt in the third quarter this year where we'll have a substantial, as Mr. Uppal said, about INR1500 per tonne is what we are expecting additional savings coming out of Raigarh

Ravi Uppal

There is another thing, as you know, just to drive from the point which Rajesh mentioned, in Raigarh, we have a structural mill there – so far we are burning the heavy furnace oil there. So what we are doing is we are going to feed the blast furnace gas into the furnace, and that's going to save us about INR800 per ton of

the medium structures, the rails et cetera that we produce there. So there are multiple initiatives that we are looking at.

We are investigating every operating activity to see how we can choose the best of the practices to realize any kind of economy, which is possible there. And one other thing I want to talk about the example that we gave you earlier about Tenova technology. The interesting part is we will not be consuming electrodes anymore. When you run arc furnaces, they consume electrodes, which are quite expensive, that is one part.

Secondly, our DRI need will also reduce substantially, because when go for Tenova technology, you don't need to add the DRI into the hot metal which comes. This also means our requirement of coal to produce DRI will also reduce. So you can see the basket of benefits that we will not need so much coal as we did in the past. We will not have to produce DRI, which is an inefficient technology. And therefore, the whole process assumes a significantly better economy.

Saumil Mehta

Sure, sure. Thank you so much.

Operator

Your next question comes from the line from Rahul Modi from Antique Brokers. Please ask a question.

Rahul Modi

Yeah. Hi, sir. Thanks for taking my question. Sir, just can you throw some light on your coal procurement strategy as to how much are we getting through imports, if we are importing, E-auction and domestic coal from Coal India for our three power plants?

Ravi Uppal

All right. I think I'll try to explain this, although I did mention earlier. See, as of this moment, our requirement of coal is of two different kinds. One is the coal we need for steel making and second is the coal that need for the power plants. As the power plants are concerned, as of this moment we are buying the coal largely through E-auction. We also have coal linkage for 1,200 megawatt out of 3,400 megawatt which is there with us.

.And when I told you that – how we are doing more and more generation with the increased availability of coal, that was essentially pointing out to the fact that the coal is becoming more available now as CIL production and the subsidiary production increases. So, we are located in the heart of the mines, our access to coal is relatively easier compared to anyone else, because our transportation cost also not high.

And the other thing is that our Gare Palma 2 and 3 on a long-term perspective and on the outcome of the court case , we think we have a very valid demand to claim the title of those mines and we are hopeful that before the end of this month or early next month, the final judgment of the court will come because the hearings are over. But notwithstanding the judgment, though the production of coal in Gare Palma 2 and

Gare Palma 3 has started. It's being done by Coal India. So, whatever auction happens there, we think we have a very good chance of taking most of that coal.

Rahul Mudi

So sir, the entire quantum from those two mines are right now being sold under E-auction?

Ravi Uppal

Yeah, but they've just about started now the production of that. We earlier – we were producing 6 million tonnes, which mean half a million tonne every month. These guys have started the mining. They are producing now 100,000 tonnes a month. But they are putting a lot of resources to increase the production.

Rahul Mudi

Right sir. Sir just lastly, one more question sir. Barring the coal that we are sourcing from Gare Palma the requirement – now you are guiding 90%, 95% kind of PLF for EUP-1. Now for that you will be needing around 4 million tonnes plus of coal. So, how do you plan to get this amount in terms of transportation to your plant sir?

Ravi Uppal

That's precisely what I was telling you. The most of the coal auction which are taking place is taking place to either in the Kulda or Basundhara mines. These all mines are at a distance of between 20 kilometers to 35 kilometers. We have mobilized huge amount of transport to bring this coal. If it gives you any comfort, let me tell you that right now we are bringing in something like 30,000 tonnes of coal per day. We are bringing 30,000 tonnes of coal into the power plant everyday and as it drives to this section, we are going to bring it even more.

Rahul Mudi

Right, right, that's great. Sir, just lastly, what is the landed cost of coal that we are able to – the ones we are sourcing under E-auction and what's your view on that going ahead?

Ravi Uppal

Look, they are highly variable, these are very seasonal, and it also depends where you source the coal from. If the mine is let's say Gare Palma 2 and 3, it would be one price level. And then if you go further out the prices change.

Rahul Mudi

Right.

Ravi Uppal

So it's very difficult to give you a number. But the good news I want to give you that on the whole the per ton sourcing cost of the coal is getting better by the day, better for us. You know what I mean?

Rahul Mudi

Right. Sure. Thank you so much sir.

Operator

Your next question comes from William Vanderpump from UBS. Please ask your question.

William Vanderpump

Hello, good evening everyone. Just a couple more questions on the debt situation. Just to be clear on covenants, you don't have any traditional covenants at the moment and there is no issue, say on the next one or two quarters given where the leverage is at the moment?

And then secondly, if I could just ask you, you mentioned in the statement some of the measures you can take to reduce debt further given what's happened to markets in the last month or so. What other options do you have other than potentially selling off assets or stakes in assets? Have you explored those options yet, please?

Rajesh Bhatia

So as those covenants, the question was, because JSPL INR27,000 crores of debt, as I said, 99% of that is from the Indian lenders, where we don't have the covenants, which are profitability mix. So there are no breaches there. On your question that how will we reduce our debt levels and all that, and what are we doing on that, one is we've said that earlier also that we're looking, we've already done this quarter about \$70 million through a sales of an aircraft, \$46 million is coming from Bolivia settlement then Botswana sales, should that concluded in this quarter.

So all of this brings you about \$300 million, but the big tickets come from your Wollongong, because we're looking at divesting one of the mines over there given that we have two equal-sized mines over there. After this whole situation is sorted out, some of these pending litigations, we have more clarity. So today JSPL holds about 97% of that Company. So we were earlier also planning an offer for sale which brings them liquidity in JSPL to reduce the debt. And then possibility, Oman also where we hold 100%.

So there is a good potential and Oman markets – IPO markets are pretty robust at this point in time. So we're looking at all the options currently to reduce the debt, but I think the focus as of now as Mr. Uppal explained earlier, is to improve the existing operations.

These assets are obviously we like to see that we increase the utilization of our assets, bring down the cost and that's where we bring in more revenues and EBITDA whereby these numbers look much better as compared to what they are today. So the focus of the organization remains on that, but yes, we are also looking at getting the right value for these assets and we can look at divestments.

William Vanderpump

Thank you very much. Just to clarify on your answers please, the \$300 million figure that you gave, could you just explain what that was again please?

Rajesh Bhatia

Sorry. So we have a Bolivia settlement done with the government which brings in about \$46 million. We had some aircraft at \$70 million, which we had done. So that is already completed and Botswana, the sales of 74% stake, the CDs should get completed and satisfied in this quarter. So all these three things put together should bring about \$300 million.

William Vanderpump

But that cash is still to come in rather than or is it already that was in place?

Rajesh Bhatia

\$70 million has come in already and \$40 million we are expecting and the Botswana thing we are expecting by end of this quarter.

William Vanderpump

Okay, so \$230 million to come in quarter two? Yeah. Okay, thank you.

Rajesh Bhatia

Yes.

William Vanderpump

Thank you, very much.

Rajesh Bhatia

Thank you.

Operator

Your next questions comes from the line of Ravi Shankar from Credit Suisse. Please ask the question.

Ravi Shankar

Good evening sir. There are two questions. One was on net debt. So the net debt has increased by Rs. 1,600 crores from the last quarter. The CapEx also during the quarter has been around Rs.1,600 crores. So were

there issues on working capital or some inventory being built up because as I understand, there is a \$70 million of cash coming in from aircraft sales as well. So why did the net debt increase?

Rajesh Bhatia

That is not in the current quarter. That is coming in the Q2, not in the Q1.

Ravi Shankar

Okay. But the CapEx was almost entirely from incremental debt.

Rajesh Bhatia

I think this debt would have also the translation losses also largely, If you see global piece not added in that, but it's largely because of the translation losses.

Ravi Shankar

Okay. And sir, how has the inventory moved during the quarter, because sales were slightly less than production this quarter as well? So, in terms of the number of days...

Rajesh Bhatia

So as you ramp up your capacity utilization along all the plants, as we said that Oman did almost five times of what it did in the last year. Angul is ramping up, the power production is ramping up and all that. So, alongside you will build the inventories and the receivables also.

So they have to been in the context of your overall business size that is where we are saying we'll manage them. But obviously as you ramp up the operations, there'll be increase in those levels and given that now, till last year, you were sourcing coal from your own coal mines which were at a lower price and now you are sourcing from outside, so even with the same volumes, the values are obviously higher.

Ravi Uppal

So let me just tell you that on a peer group comparison basis, JSPL inventories are the lowest. The most of the other players have whether it's SAIL and others. So they all are in the millions of tonne range. Our total finished goods inventory including these semi products is in the range about 350,000 tonnes. It has marginally increased compared to last quarter, because the market has been highly fluid and very dynamic with all the external players importing things, which can't be predicted.

So, sometime you do produce stock for which movement could be at a different rate. But I can tell you, we have a very tight lid on the inventory because we produce everything which is bulk order. We don't have the culture of producing items to stock, excepting one single item, which is the re-bars. Re-bar is the only item which is stranded and we produce it to stock, but there again, through our elaborate system of tracking, it's being watched on a hourly basis.

So, we have a very tight lid, you can be rest assured. JSPL used to have an inventory of finished goods in the range close to 600,000. We brought it to the level of now 325,000, but in the last quarter, it has increased because of the unexpected movements of the market. But once again, we are all out, as Vijaya Gupta had explained, that working capital is the prime focus.

Ravi Shankar

Thank you, sir. This is very helpful.

Operator

Your next question comes from the line Dhawal Doshi from PhilipCapital. Please ask the question.

Dhawal Doshi

Yeah, hello, sir. This is Dhawal here. Sir, just one question on the other expenses, I'm sorry, you said Rs. 100 crore of reduction on account of repairs and manufacturing expenses, but if I were to look at the absolute decrease, it's been more than Rs. 200 crore. So what could we attribute the balance to?

Vijaya Gupta

Rs. 100 crore is in stores and spares and Rs. 100 crore is in other expenses, so others mainly manufacturing, repair and maintenance, and miscellaneous expenses and freight cost.

Dhawal Doshi

So if I were to just read out the numbers. Q4 FY15 other expenses was Rs. 651 crore and the current quarter's other expenses is Rs. 444 crore, right. Stores and spares are separate.

Vijaya Gupta

Yes, stores and spares is down.

Dhawal Doshi

Yes. Okay, because I didn't really get the balance. So is there some one-off benefits, which we've got in this quarter?

Vijaya Gupta

No, no. there is no one-off benefit. It is basically through, as Mr. Bhatia has said that our plants have modernized and we are getting fully state-of-the-art.

So that's the reason the expenses have come down and there has been a massive focus in this area and we expect more to come in the next quarter.

Dhawal Doshi

Okay. My second question is with regards to the standalone power business. So if we were to look at the power generation that has declined on a sequential basis whereas steel production has increased. So despite of that, our power sales have increased quite substantially on a sequential basis. So has the impact of the power savings, which were being mentioned has fully come in this quarter or is there some other factor behind this?

Ravi Uppal

Power savings.

Vijaya Gupta

Power savings.

Dhawal Doshi

I'll just read out these numbers.

Ravi Uppal

Can you repeat that question. Could you just...

Vijaya Gupta

Power costs has gone up on standalone. So...

Dhawal Doshi

No, no. Not the power cost, I'm talking of the actual generation numbers 1,937 [million units was Q4 generation?

Ravi Uppal

Yes.

Dhawal Doshi

This quarter generation is 1,792 million units, right.

Ravi Uppal

Yes.

Dhawal Doshi

Our steel production has gone up. Despite of that, our power sales in the standalone business is up from 672 units to 1,034 units implying the consumption has come down quite sharply. So what were the factors for this quarter specifically?

Vijaya Gupta

So power sales is basically whenever we get good opportunity in the market, we sell it. So that's the thing and also we started Angul this year, so there is the power sales. It's just a normal business, it's nothing to do with in house generation. Production is up so sales is also up. Production is up by 7% and sales is up by 6% .

Dhawal Doshi

No, no. I'm talking on a sequential basis ma'am. So, sequential basis there is a decline.

Rajesh Bhatia

Can we take this question offline

Dhawal Doshi

Sure.

Rajesh Bhatia

Thank you.

Dhawal Doshi

Fine. Absolutely okay. Thanks a lot.

Operator

All right. Our next question comes from Manish Srivastava from Amala Management. Please ask the question.

Manish Srivastava

Sir, can you actually tell us in terms of coal sourcing and then logistics that's involved? Again, you talked a lot about the significant jump in coal sourcing that you have been able to do and Mr. Uppal mentioned that you are now able to source almost 30,000 tonnes per day. Obviously a lot of this cannot be dropped into your power plant longer-term. So, what's your strategy around that situation because the growers obviously they are not in a condition to take so much stock for so long and you will end up like getting into constrained situations in future. So, what's your strategy in that regard?

Ravi Uppal

Okay, that's a good question. You know that on a long-term basis, obviously the effort is to make sure that we get a coal block. As you know, two of our coal blocks which we had won, they are subjudice and we expect the decision to come relatively soon. I would reckon in the next two to three weeks time and if that comes around, then of course that's a long-term solution because the mines put together, they are capable of giving us up to 15 million tonnes.

So, that is one part. And we will also continue to bid for any another coal blocks that come along or as per the government newly announced policy that the linkages will be auctioned by the state utilities. And therefore, we will participate. We very much prefer that arrangement. That is for any kind of linkage will come in future the state governments will allot the linkages to those who get the PPA. And we will therefore participate for linkage auction coming from any state. And I think we have a readymade capacity, I think, that the state governments will also give us a preference because we can deliver power without having to wait for long time.

Manish Srivastava

Sir, just one other question. While obviously your own mines in that area will pause the logistics issue significantly, on the PPA side what is the situation now?

Rajesh Bhatia

I mentioned in my comments earlier that there are three, four PPAs in the market right now. The big money is from UP, which is for 6,000 megawatt. We have one, which has come from Bihar. There is another one, which is Bangladesh. All these tenders are under submission. And the good news about UP and Bangladesh are that UP will start from June next year, which means in the very near future and same is the condition with Bangladesh.

Manish Srivastava

But, do you have a transmission corridor into that market?

Rajesh Bhatia

It is available. The transmission corridor is there on the East side, not an issue. And for UP, we are in a good position because we just got more access. So in both these tenders, there is no issue of transmission corridor.

Manish Srivastava

Great. So wish the best on those PPA bids?

Rajesh Bhatia

We hope so too.

Operator

All right the next question comes from the line Pravin Shiva from Enam Holdings. Please ask your question.

Pravin Shiva

Yes good evening sir. Sir, you mentioned of 50% PLF on 3,400 megawatt. I understand that that – was it on 3,400 megawatt or 2,200 megawatt, which is operational right? Two units of 600 megawatt are not yet operational.

Rajesh Bhatia

3,400 megawatt, we said.

Vijaya Gupta

So the last two units of 600 megawatt are also operational now?

Rajesh Bhatia

No, no. I'm saying that let's say that, you know, we consider for all purposes that the capacity is 3,400 megawatt. So what we're saying is considering that, we'll be able to generate, utilize at least 50% of that. So irrespective of what is the unit concentration is, so 50% of that, we'll be able to operate.

Pravin Shiva

That is the second half, you are saying, second of this fiscal?

Rajesh Bhatia

No. This quarter itself, current quarter itself.

Operator

All right we have four more questions.

Ravi Uppal

Can we take one or two questions more?

Rajesh Bhatia

Yes please go ahead.

Operator

All right then we have the next question form Hareesh Shah from Invest. Please ask the question.

Hareesh Shah

Good evening sir. Just one question, can you provide CapEx guidance? Do we maintain Rs. 5,000 crore or is there any change in the CapEx guidance?

Rajesh Bhatia

No, no. I think Rs. 5,000 crore is not in the radar at all. As I said that except for one project which we need to complete at Oman, which is getting completed in October - November, there is no other CapEx. So, now we are talking only sustaining CapEx for our whole business. So, there is no other new CapEx planned.

Hareesh Shah

Can you quantify the numbers for next two years?

Rajesh Bhatia

Difficult on this call, but I think probably next time, we will be able to give you a better guidance. But the intent is no more CapEx - only sustaining and just to complete these projects, that's it.

Hareesh Shah

Okay, sir. Thank you.

Operator

The next question from Sanjay Jain from Motilal Securities. Please ask the question.

Sanjay Jain

Hi, wanted to know how is our Angul plant doing, that's one. And secondly, you mentioned about the technological upgradation in Raigarh plant. So, what I was wondering as we start reducing consumption of DRI, does it constrain our total steel production in that area, because we have limited capacity of hot metal?

Rajesh Bhatia

No. Actually that is what we're doing. We are changing the mix of intake in the blast furnace. So we are increasing the hot metal production, okay because DRI making, way of making steel given that the coal is now expensive as its used to be prior to 31 March. So, all that you have to do is put more hot metal in this. So we are increasing the hot metal output from the furnaces, the entire focus is on that. And to the maximum extent, we can bring the hot metal and we'll do that to reduce the DRI input in the furnaces. Whereby you will have much less power utilization when you make your steel and more of oxygen flowing which is a free raw material.

Sanjay Jain

Yeah. Sir, I understand that technological part, you explained very well in the beginning, my question was that how much more maximum amount of hot metal we can produce.

Rajesh Bhatia

We will see Raigarh today, we have done technological changes to do a capacity of 3.6 million tonnes. So as against that, current year, we will definitely produce three million tonnes.

Sanjay Jain

Okay. And what will be the peak hot metal production? You said the current quarter was the best quarter?

Rajesh Bhatia

I think it will be Q3 and Q4.

Sanjay Jain

So what will be our hot metal production?

Rajesh Bhatia

I'll have to give you the numbers separately offline. We'll kind of explain this number to you.

Sanjay Jain

Right, sir. If you want to touch upon Angul, how it is shaping up and how much steel we produced?

Rajesh Bhatia

Angul, today, we are utilizing about between 65% to 75% capacity utilization as we see.

Sanjay Jain

Okay thank you.

Rajesh Bhatia

It varies depending on the productivity of the gasifiers and all that, but we've gone up to 90% at one stage but given that coal is still a constraint over there, so that is the current level of utilization.

Sanjay Jain

Thank you, sir. Best of luck.

Rajesh Bhatia

Thank you.

Operator

Thank you ladies and gentlemen. Unfortunately, we have run out of time for any further questions. I would now like to hand the conference back to today's presenter, please continue.

Ravi Uppal

Bala, you want to put any closing remarks please?

Balsubramanyam Danturti

Yes, on behalf of Jindal Steel & Power Limited, we would like to thank all the investors and analysts who have attended our conference call. In case of any further questions, please do not hesitate to call us. We are always here to help you out.

Ravi Uppal

Yeah, yeah, thank you.

Chirag Capital

And on behalf of Barclays Capital, thanks everyone for participating on the call. Thank you, everyone.

Operator

Ladies and gentlemen, that does conclude our conference for today. Thank you for participating. You may all disconnect.

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