Jindal Steel & Power

Q1FY17 Post Result Conference Call Transcript

Representative:
Mr. Ravi Uppal, MD and Group CEO
Mr. K. Rajagopal, Group CFO
Mr. Nishant Baranwal, Investor Relations

PL Rep.:
Kamlesh Bagmar

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Moderator

Ladies and gentlemen, good day and welcome to the Jindal Steel & Power Limited Q1 FY `17 Financial Results Conference Call hosted by Prabhudas Lilladher Private Limited. As a reminder all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kamlesh Bagmar from Prabhudas Lilladher Private Limited. Thank you and over to you Sir.

Mr. Kamlesh Bagmar – Prabhudas Lilladher

Thanks Moderator. On behalf of Prabhudas Lilladher I welcome you all to the Q1 FY `17 Post Results Con Call of Jindal Steel & Power. Now I will hand over the floor to Nishant Baranwal, Investor Relations, JSPL. Over to you Nishant.

Mr. Nishant Baranwal –Investor Relations

Thank you Kamlesh. Good afternoon everyone, this is Nishant Baranwal from the Investor Relations. We welcome you to the first quarter results for fiscal 2016-17. Today on the call we are joined by our MD and Group CEO, Mr. Ravi Uppal and our Group CFO, Mr. Rajagopal. To begin the call I would request Mr. Uppal to kindly make his opening remarks. Over to you Mr. Uppal.

Mr. Ravi Uppal – MD & Group CEO

Thank you Nishant, ladies and gentlemen a very good afternoon, it's really a pleasure to speak to you once again to present and discuss the results for the first quarter of 2016-17. In 2016-17 I would say that the way market was during the first quarter, JSPL in view of that has performed very well. In the first quarter the steel demand actually rose only by 0.4% contrary to the expectation that it will go up by 5-6%. And this year the monsoon also started around large parts of the country already; from the middle of May the rains have set in. And for the steel off take which is primarily for the infrastructure segment, the off take has sort of reduced. But in the domestic market our total sales, as you would have seen from the numbers, are more or less same as we had in the first quarter of last year. And on a consolidated basis our sales have gone up for JSPL consolidated by 4%.

In Oman, our margins once again have performed remarkably well, the new plant of SMS and the Rebar which were commissioned, they have been operating to very good capacities, and the volume ramp up has been very good. SMS has been operating nearly at 80% and the rebar sale has also taken off. We needed some statutory approvals for the production plan; the plant was in a very good shape. But as per the GCC rules we need to take approvals from all individual countries for sale of rebar to them so the volume for rebar has started to look up from second quarter. The HBI plant as before has been operating at 100% capacity so Oman plant posted very good performance and the EBITDA level was at 26% for the first quarter. JSPL, because the demand was low in the domestic market therefore it saw a lot of pressure on the price levels. The NSR recovery which has started in the month of February and March after the government's announcement of MIP. Towards end of April the NSR levels started to go down and by June that NSR had really come to a level which was somewhat disappointing. But then of course is the monsoon season and the demand is normally low but the way things are laid out now my personal view is Q3 and Q4 would be quite promising, given the volume of enquiries that have landed with us and the order inflow which has started.

We had in the first quarter improved the EBITDA level from 19% in the Q4 to 21% but 21 was not as good as 23% that we had in the first quarter of last year, thanks to the difference in the net sales realisation. Apart from the steel sales one thing good that happened was a pickup in demand for pellets. We produced pellets 35% more than what we did in the first quarter compared to last year and about 25% higher than the last quarter of the previous year. And although the prices did not rise much in the first quarter but the higher off take helped us to sum up more EBITDA. But I can just tell you on sidelines the prices of pellets have really shot up in the last 1.5 months, pellets which were getting sold at about $60-62 FOB, same grade pellets are today getting sold at $91-92 FOB. So you can literally say that the prices of pellets have gone up close to 50%. And as far as the steel prices are concerned, government you know is putting 66 items under extended MIP and 105 items out of the previous 171 under the category of antidumping duty to improve the matter. The imports are gradually coming down, they haven't come down to the level we expected because the imports still are about 50% of the total imports that we had in the previous year. But we do believe that the government is putting in stringent laws even on the quality order apart from putting the MIP and antidumping should further help to bring down the imports.

Now pickup in construction activity, railway activity and industrial activity should definitely see the demand look up. My own sense is in the Q3 and Q4 the overall demand will definitely look up at least by about 5% based on the inquiries that we see in the marketplace right now. In the first quarter the power demand was not as much as it was in the previous year that took us by bit of a surprise because normally from April to June-July the power demand really picks up due to severe summer. But this year the demand wasn't that much partly out of the reason that industrial activity had not picked up that much. And the second was new plants which came on stream were also there to claim the share in the power which has been sold. But compared to the first quarter last year the PLF has gone up, if you see the numbers that have been attached with the press release for the 4 x 250 MW, it rose from 45 to 51% and for 3 x 600 MW rose from 23 to 27%.

We are still not happy about the way it is rising, we do expect that these PLF should go up, the good news is that we are able to now eexecute some of the PPAs that we have got. We are right now having 600 MW of PPAs in TN which is under full execution, Kerala 165 MW which is under execution and we are expecting another one from Kerala 150 MW also to be realized much earlier than we had anticipated earlier. So I do reckon that from Kerala the balance 215 MW should also come on stream. The other good news is that the UP government had sort of invited tenders which we responded and we were the second lowest bidder for 325 MW more. Once this order comes through which we are expecting in the middle of October, our 2 units of 600 MW will be fully loaded. And then obviously the attention will move on to secure likewise contracts for the 1,000 MW where we have 400 MW equivalents of PPA's and also to the EUP No. 3 where we have 1200 MW. So, all efforts are being made to see that machines get fully occupied and deliver at the rated output. My sense is I am only trying to pre-answer one question which may come from you later, saying how do you see in the months to come. I do think that November you know that we should be running about 2,000-2,200 MW of power and the maximum it could reach in January-February will be about 2,500 MW. And of course we are well poised to participate in any PPA enquiry that comes.

UDAY scheme is getting implemented, 16 States have signed up the UDAY Scheme, they have gone out of the market with their invitation for the bonds, so once the bond money starts coming in to the state government, the Discoms will start sending out inquiries for medium term contracts. Going forward we don't think that there will be many long term PPAs but there will be PPAs which are medium term which means a time period up to 7 years, those kind of PPA's will certainly be there. So I am more optimistic now with the PPAs which we signed earlier getting into action and some tenders where we are the lowest bidder that will qualify as to use more and more of our capacity.

As far as overseas ventures are concerned, Oman of course has been outstanding; our mines in Mozambique and Australia they had gone out of action because the coking coal prices have fallen to such a low level that it doesn't make sense to keep mining. But in the last 1.5 months things have tended to change, the coking coal prices have really shot up and you might have noticed yourself the coking coal prices which were of prime quality which is about $82-83 FOB are today being quoted at $165-168. This means in the space of just less than 6 weeks the prices of coking coal have doubled. And this is in way good news for JSPL because we are the only Indian company which has coking coal mines overseas in both Australia and Mozambique. So we have started at full fury, the mining activity of coking coal in Australia and likewise we have started in Mozambique which we had suspended when the coking coal prices had touched very low. So I think the revival in coking coal prices which are likely to stay firm for a good length of time, the reason being that many mining companies like BHP Billiton and Rio Tinto, Glencore and Anglo American all of them had closed down several of their mines because the prices were simply too low. And America and in Virginia area also the companies had already closed some operations down in some mines. So there is a shortage of coking coal and the mines are not likely to be reviewed very soon. So I think that should really help us to stage a recovery on our mining operations.

So going forward I see with the monsoons subsiding and the dry season shutting in, Q3, Q4 should see a lot better performance both on steel, mining operations as well as on the power side. We have tried to maintain a very steady level on EBITDA with steady improvement, we have come to a level for power for example last year our EBITDA levels had fallen in the Q4 to 17%, you would note in this quarter we brought it to 27%. With the capacity utilisation improving, focus on operational excellence and bringing down the inventories are among the things which are helping us to stage a recovery notwithstanding the pressure which is there in terms of low demand and low rates in the exchange market. So this has broadly been the summary of performance in the previous quarter. And I could also inform you that we have taken multiple steps to see how our people productivity and capital productivity goes up. We are very much focused on financial capital efficiency and there was a major drive for us to reduce inventories and receivables. During the first quarter we brought down our working capital by nearly Rs. 500 crores and this campaign and this effort will simply continue.

So on total a good positive outlook for Q3-Q4 quarters and I do see that there will be some firming of prices which has already started for steel from the end of August. And one thing more I might just tell you that coking coal prices have gone up and it is largely imported, 70% of India's steel is produced using the blast furnace where coking coal is the main element. So there will be some increase in cost of steel but prices will move in sync with the cost which is already being seen. Until now we have not suffered any impact of coking coal prices because we were carrying stocks etc. But going forward proportional adjustment has been made to recover any impact from increase in coking coal prices.

Iron ore prices remain steady, they have been for pretty long for the last 6 months and we just hope that they will continue the way they did. Pellets, we are exporting and I am happy to tell you although it is beyond Q1, that your company has been increasing the production of pellets. Right now we are running very close to 85-90% of the capacity of the pellets plants as we are exporting close to about I would say 60% of our total produce. So there is a huge focus to take advantage of hike in the pellet prices so we would not spare that opportunity. So these are all my opening comments and I will request my colleague Mr. Rajagopal also to make his comments about the first quarter.

Mr. K. Rajagopal – Group CFO

Thank you Mr. Uppal, good afternoon to all the people who have joined the call. Let me give you some financial overview, expected questions in advance so that later on you can ask whatever you would like to have over and above that. On the margins side as is already said we were able to improve our EBITDA from 19 to 21% but definitely it will be less than the same quarter of last year but still it is an improvement as compared to Q3 of 2015-16 where our EBITDA was reduced to 12%. For these improvements have come from increase in prices as well as operational excellence and various other operational improvements. So we expect that as we go along further quarter the demand is supposed to increase. With the demand increase and antidumping duties coming into effect in a stronger way, we expect the prices to improve which should also increase the EBITDA levels. And in terms of EBITDA per tonne, our lowest EBITDA rate per tonne was in Q3 2015-16 which was about Rs. 4,500 which reached to Rs. 6,000-7,000 in the fourth quarter because better prices came in the last month, in March. And in Q1 we are able to bring between Rs. 7,500-8,000 per tonne and in addition to increase in sales in pellets also contributed to better EBITDA percentage.

Coming to our overall debt position, I want to explain in three buckets, one is our JSPL standalone steel, second is Jindal Power and third is overseas. In overseas I will also give in three different headings, one in Mauritius, one in Oman, one in Australian entity. Now we come to our steel standalone, overall our net debt level is remaining around same levels except there is an increase of Rs. 200-300 crores due to exchange variation which goes up and down. And also some around Rs. 200 crores in terms of some additional borrowings to finance the Capex. On the standalone level we have a debt level of about Rs. 25,000 crores, if I remove working capital and internal borrowings then we have Rs. 7,000 crores of project loans, which have been covered under 5:25. We have got sanctions from all the banks except 1-2 banks which are already implemented; balance is also under implementation.

Other project loans nearly of Rs. 12,000-14,000 crores are corporate loans with a longer term & medium term and whenever they are becoming due, we are able to rollover and finance. So, on the overall for the year our repayment is for Rs. 900-1,000 crores out of which Rs. 450 crores has already been paid and remaining will be paid during this year. So we expect on the standalone side with improvement in EBITDA and also some of the capital inflows, which we have planned which we have already announced, one is on the wind power sales or oxygen plant sale or in the entire investment or old clients settlements. And also in our JSW deal where we have to get the advance which is likely to come in the second half of the year, we expect that we will be able to meet all financial liabilities as well as complete our Angul balance part of the project as well as to payback some of the loans and improve the working capital.

If you come to Jindal Power, our debt level remains at same level Rs. 8,000-8,500 crores and we were able to service the loans interest and principal even though we are not operating full capacity of 3,400 MW. Since the debt levels are low per MW, we are able to service interest and principal as it is. We expect the further quarter rates to improve which will further improve for EBITDA levels, as such we do not expect any issues in servicing the loans in Jindal Power.

Coming to overseas we have about $765 million in our Mauritius holding entity and another $400-500 million in Oman entity, similarly $400-450 million in our Australian entity. So as far as Oman entity is concerned, it is profitable and it can improve further during the year. It is already doing better than last year and we are able to service interest and loan repayment, so we do not see any issues with Oman entities. And coming to our Australian entity 400 million plus facility, 93% of facility has already been rescheduled to longer tenure and some other 5% facility to be rescheduled and refinanced for which we the work is in progress and we expect that gets completed so that it will not put pressure on our cash outflows. And as Mr. Uppal explained already, coking coal prices have improved and we have already started production in one of our mines and we expect to produce cash flows. We should at least mitigate our ability to issue the payment of the interest. Since the period is elongated we do not see any problem in repayment as a principal and loan amounts etc.

Coming to the Mauritius entity which actually the finance investment in Australia, Mozambique and Botswana so we have 4 facilities out of which $150 million is where we have overdue payments and also the interest overdue only in one installment. I must tell you again that there is only one latest installment overdue and the lenders are concerned with that and they have also given us a notice for acceleration but we are in discussion with them to reschedule and refinance and restructure them. And similarly $400 million which has not become due, which is due only after 2 years but however they are also in discussion with us to see that whether we can reschedule, refinance, restructure. So except these two, out of which, one is not due but the lenders are in discussion with them, all others are in control. And as I said improvement in steel operations, power operations and also coking coal price improvements and the commissioning of power mill in Oman where our cash flows are improving. So even though it is tight conditions to finance overseas loans but we are well placed while working with the refinancing, rescheduling in some other facilities. So overall company has a positive outlook and we are working with all lenders to ensure that the same is taken correctly by them and we are able to improve our operations under financing facilities. So this is the overall view I thought I must share with you so that before you have any questions some of them could have been answered and other things can be discussed. I will now handover to Mr. Uppal.

Mr. Nishant Baranwal –Investor Relations

Hi. We are now looking to open lines for the questions but before we start taking questions we request you all to kindly restrain from data questions. We, here at IR, are always there to help you with those. So operator please open the lines for questions now.

Moderator

Sure. Thank you very much. We will now begin the question and answer session. Anyone who wishes to ask a question may press "*" and "1" on their touchtone telephone. If you wish to remove yourself from the question queue you may press "*" and "2". Participants are requested to only use handsets while asking a question.

Ladies and gentlemen we will wait for a moment while the question queue assembles.

Anyone who wishes to ask a question can press "*" and "1" at this time.

We have the first question from the line of Mr. Atul Tiwari of Citi Group. Please go ahead.

Mr. Atul Tiwari - Citi Group

Good evening sir. Sir, I have two questions - how much is the consolidated CAPEX for FY `17 and how much has already been incurred in first quarter and how much will be incurred in rest of the year? That's my first question and then I will ask the second one.

Mr. K. Rajagopal – Group CFO

As we have been always explaining that we want to complete our second phase or what we call the Phase 1B in Angul to complete our blast furnace which requires this year about Rs. 1,750 crores out of which we have already spent about Rs. 500 crores.

Mr. Atul Tiwari - Citi Group

So beyond this there is not much substantial CAPEX for....?

Mr. Ravi Uppal – MD & Group CEO

No, as a matter of fact I must reiterate that the company doesn't have any plans in any more investments, we have put the investments on freeze now, but some of these projects, like Angul Phase 1B were started 3 years ago so therefore we don't want to leave it half done. So it is very close to the finishing line and as Mr. Rajagopal said the quantum of investment, out of which we have already also incurred about Rs. 500 crores is done, as about Rs. 1,250 crores maximum. And that would really capitalize our total capacity because Angul which has at this moment 1.8 MT based on the DRI route, they will be able to add immediately about another 2.5 MT from blast furnace which will further go up to 3.5 MT. So eventually I see Angul plant will have 5.5 MT capacities and it will offer something like 4.5 MT. So 4.5 plus 3.6 of Raigarh will add it up to 8 million plus tonnes. And with that of course JSPL will become the fourth largest steel company in India.

Mr. Atul Tiwari - Citi Group

Okay. Thank you Sir. Thanks a lot for that. And sir my second question is again on the cost cutting initiative, it is quite hurting to see companies releasing substantial funds from working capital both in FY `16 and in first quarter. However sir, on the standalone entity if we look at your cost of EBITDA and sort of try to divide it by tonnes of steel sold and pellets sold it doesn't look like on per tonne basis these costs have come down substantially over past 4-5 quarters. So if you could share some more color around that, is that impression right? Have the cost really come down and we are not able to make it out from the publisher's statements or will the cost come down in the future. Or these are the lowest cost we are looking at, whatever is the actual situation?

Mr. Ravi Uppal – MD & Group CEO

According to my information the cost levels have really come down in whole of last year with the material prices prevailing at almost all time low. And then of course the first quarter once again the cost of production shouldn't have gone up because the coking coal price increase has taken place starting from August, and the iron ore prices were also down. So I can't give you the data to contest your observations right now but we don't think that the cost levels have gone up.

Mr. Atul Tiwari - Citi Group

Sir, can they come down further I mean if the raw material cost don't go up do you have room to cut other costs like stores and spares or other operating expenses or are these maxed out right now?

Mr. Ravi Uppal – MD & Group CEO

There is a huge focus on cutting on all associated cost of the kind that you mentioned, consumables and stores and other things. We are also you know increasing people's productivity which was on the part time basis; those expenses should also really come down. And the effort will go on but there are certain factors which are external to us like the prices of the iron ore, the coking coal and other things. I can't foretell how they will behave but if they remain stable I think the steel prices should remain stable, the cost should remain stable and we will do everything possible to see how we can bring down the cost.

Mr. K. Rajagopal – Group CFO

And the cost reduction, let me just give an explanation, compared to Q1 of 2015-16 the cost have come down by Rs. 5,000 per tonne and also in Q1 of this year we have reduced another Rs. 200 per tonne. If you work out from the overall statements you will not be able to find out because the cost elements are coming on the basis of various compositions of our product. And also since we have big structural steel factories, which also increases tonnage then it gives a different cost element. So we will not be able to directly arrange from here but you can see from the reduction of costs as well as the improvement in EBITDA. If we see the EBITDA levels which were about 24-25% when the NSR realizations were about Rs. 34,000-35,000 per tonne steel whereas now we have come to 27-30. And from the raw material reduction if you see that, you can see that how people are able to not only maintain or improve EBITDA percentages will show on overall basis but we can't see the individual basis differently.

Mr. Atul Tiwari - Citi Group

That's very helpful. Thanks a lot.

Moderator

Thank you.

The next question is from the line of Mr. Nitesh Jain of Axis Capital. Please go ahead.

Mr. Nitesh Jain - Axis Capital

Hi, Mr. Uppal I have two questions. Sir, if you can elaborate further on the steel pricing scenario in recent months? In your opening remarks you mentioned that there was some correction in May-June and then there is a recovery in August. So in nutshell like today these steel prices are better than Q1 average or they are like lower than Q1 average for both flat and long?

Mr. Ravi Uppal – MD & Group CEO

Well, the prices have undergone immediate change in the last 9 months. When we started in January up to the middle of February the prices were already leveled and got kicked around 6th February onwards, prices started to look up in a guarded way. But it picked up momentum in the month of March and then went and continued right up to the first week of April. From end of April the prices started you know falling so that was because everybody was thinking that the demand will look up and once the demand looks up there is more demand in the market and the prices will continue to remain firm. But fortunately the demand did not sustain at a level that was expected and therefore people had stocked more material and they found that the off take was not much and prices started to fall. And they continue to fall through May and June and July. And only from the third week of August their anticipated price is starting now, construction activities will resume, the prices have started to firm up.

There is a further reinforcement of the fact people were anticipating that the MIP may not be extended and again prices will fall post 5th of August. But the government acted in time and before the date was to expire they announced that either there will be antidumping duty or there will be a continuity of MIP. So there were many people who stocked steel thinking that MIP may not be extended, they had stopped buying steel in the month of July and August speculating that once we have free imports again prices will fall why we should stock. But that is changing now, the government has reaffirmed the commitment by way of protecting the local industry through the combination of antidumping and MIP. So I think the prices have started to firm up, in the last 4 weeks there has been a good movement and more than that the demand has started appearing on the horizon, which was not there through the month of July and August.

Mr. Nitesh Jain - Axis Capital

Sure. Sir my second question is on the combination of MIP as well as antidumping duty in terms of protection. So what all broad categories are into antidumping regime and what are the broad categories of products that are still into the MIP regime?

Mr. Ravi Uppal – MD & Group CEO

Yeah, that's pretty clear. It is the HR coils and plates which were covered, various alloy and non- alloy grades, API grades and various things. And also a certain range of the coal rolled products with alloy grade which will cover under antidumping. And long products like TMT, wire rod and semis they continue to remain in the MIP category. We are of the view based on our discussions with government at various levels; the government is not going to make it a free thing in the months and years to come. I think we want the industry protection at least for the next 2.5 years as is evident from the HR coil where they had given a roadmap. So, they will replace MIP by antidumping after these two months expire. That is they will expire on 5th October so we gather from the steel and others that they will replace by antidumping duties.

Mr. Nitesh Jain - Axis Capital

You mean for the balance categories basically the long products?

Mr. Ravi Uppal – MD & Group CEO

Balance categories, yeah because I think there is unanimity in the government that the steel industry in India has to be protected for some period.

Mr. Nitesh Jain - Axis Capital

Sure sir. That's all from my side, I appreciate your response.

Mr. Ravi Uppal – MD & Group CEO

Yeah.

Moderator

Thank you.

The next question is from the line of Mr. Amit Dixit of Edelweiss Securities. Please go ahead.

Mr. Amit Dixit - Edelweiss Securities

Thanks sir for giving me the opportunity of asking questions. I had two questions; one is that what would be the volume guidance for the mining operations in Australia? And my second question is can you explain a bit on the nature of exceptional items taken in Australian coal mines this year?

Mr. Ravi Uppal – MD & Group CEO

All right. I will attempt to answer both of them. We have drawn up a plan, once the prices started recovering we looked up as to how much we can mine and how much we can sell both for Australia and Mozambique. Australian mine has already gone into operations, we have two mines and one of them is already operating now, this is mining about 80-90,000 tonnes of coking coal from the Wongawilli mines. And as far as the Russell Vale mine is concerned we have applied for license to mine with the Ministry of Environment which is once again in process. We are doing everything possible to see that we secure that license. But it is very difficult for me to put a timeline so you can assume that from now till about March 2017 an average volume of 80-85,000 tonnes of coking coal. And this coking coal is high grade and it is a prime hard quality but of course we don't wash it we sell unwashed. There is a huge amount of interest in the Australian coal at this moment, the other one is Mozambique where we are in the process of starting the mines, the work is going on and from the middle of September the operations will start. There our idea is to have close to 150,000 tonnes of the ROM and then of course we have a washery there where they will wash the coal and they will sell that coal. And that coal price has also picked up dramatically, the one we have in Mozambique.

Mr. Amit Dixit - Edelweiss Securities

Okay sir thank you. And what is exact nature of that exceptional item on the P&L this quarter?

Mr. K. Rajagopal – Group CFO & Director

Exceptional item is requirement in Australian mine which was made in the beginning or end of last quarter that is March-April. So at that time the coking coal prices were rolling at $70-80 so on the basis of the projection on coking coal rates the assets were impaired to the extent of Rs. 625 crores. Now the rates have gone up to $150-160 so this is again liable for revaluation or a fair valuation. So this up and down impairment or improvement, it will happen on the basis of the coking coal projection prices. This is happening mainly because in last two years the coking coal prices have come down continuously. And even in the previous year also we took similar type of impairment, not only we but many other steel companies who have done the overseas assets, mining assets had to take impairment cost last year in the fourth quarter. And since ours was valued around that time March-April so this is considered in the first quarter of this year.

Mr. Ravi Uppal – MD & Group CEO

It is more about book entry, this is according to the Australian law of accounting and we just hope the price is recovered as we have started to do so you might just see reversal of it in the months to come.

Mr. Amit Dixit - Edelweiss Securities

Sir, in that case is there some borderline coking coal price below which you are supposed to take impairment? Or is it based on the company's internal valuation?

Mr. Ravi Uppal – MD & Group CEO

No, it's not on valuation, this revaluation of assets are in Australia, they have the mining companies who keep track of the market prices. And as Mr. Rajagopal explained the coking coal prices has been falling for the past two years so they think they have given the stock and given the prices to do this valuation. And it is mandatory there to state the amount of impairment based on the value. But if the prices start to look up once again and if they sustain there, they also do the reversal.

Mr. Amit Dixit - Edelweiss Securities

Sir, just one more question if I may.....

Mr. Nishant Baranwal – Investor Relations

Amit can I request you to please join the call list again please?

Mr. Amit Dixit - Edelweiss Securities

Okay sure I will do that. Thank you.

Moderator

Thank you.

We have the next question from the line of Mr. Ravi Shankar of Credit Suisse. Please go ahead.

Mr. Ravi Shankar - Credit Suisse

Hi, thank you for the opportunity. Two questions, one was on pellet capacity utilisation so given that now there is abundant iron ore in and around Barbil, is the pellet capacity not fully being utilised there?

Mr. K. Rajagopal – Group CFO

Yeah, our total capacity Ravi Shankar is about 9 MT, which means that we should produce about 750K but that's on a particular type of quality. Right now we are producing very close to 600,000 which is almost 80-85% of the total capacity. And the plants are running nonstop both of them. So right now the capacity utilisation is very good and of course it will remain our endeavor to see how much more and more we can produce out of the current branch.

Mr. Ravi Shankar - Credit Suisse

And as far as the onshore lenders are concerned is there a joint lenders forum for JSPL?

Mr. Ravi Uppal – MD & Group CEO

Yeah, there is a joint lenders forum.

Mr. Ravi Shankar - Credit Suisse

Would you have any details of what kind of SME classification are we?

Mr. Ravi Uppal – MD & Group CEO

We are in SME2.

Mr. Ravi Shankar - Credit Suisse

Understood. Thank you that's it sir.

Moderator

Thank you.

The next question is from the line of Mr. Ashish Kejriwal of Elara Capital. Please go ahead.

Mr. Ashish Kejriwal - Elara Capital

Thanks a lot. Sir, my question is about demand expectations because you pointed out that on the basis of your enquiries you expect the demand to improve by 5-6% in second half. So my question is whether these kinds of demand expectations are similar to what was there in April or it is more of restocking demand which may not materialise going forward and prices may fall further because additional supplies are also coming?

Mr. Ravi Uppal – MD & Group CEO

There are two things which are contributing to the demand. Number one, if you look at the first quarter as I mentioned in the covering comments, this year the monsoon has set in large part of India much earlier than it normally does. So people don't stock material because the off take during monsoon period when the infrastructure industrial activity comes to low key, reduces. But the dry season normally starts, in India from middle of September till about 15th of June typically. And we have also seen from the past that in the third and fourth quarter people make most of their procurement decisions and government in particular through the month of January-February-March since they have budgets given to them and hence, the off take is more. Typically the off take is about 40%, 35-40% first two quarters and about 60% in the other quarters. So that's a typical trend which is witnessed by the past history.

And the second thing is that a lot of initiatives are taken by Ministry of Railway, Ministry of Road, a lot of flyovers and the bridge activity has been done in big numbers. So construction activity is picking up and that augurs well in particular for company like JSPL which is very focused on the long products business. We make a lot of structures for power plants and foundries, bridges, flyovers etc. So that segment is really sort of picking up. So, all factors considered we have had an internal debate and we have come to a considered view that there is a good potential, good prospect for the demand to go up by 5-6% in the remaining two quarters.

Mr. Ashish Kejriwal - Elara Capital

So sir I was comparing from second half of last year to second half of this year because as you rightly pointed out that 60% is a typical trend in that too. So you are talking of last half of last year to second half of this year, not H2 to H2?

Mr. Ravi Uppal – MD & Group CEO

Yeah, that's what I am saying. Second half is normally more business busy season.

Mr. Ashish Kejriwal - Elara Capital

So besides construction activity are we seeing improvement in other infrastructures also?

Mr. Ravi Uppal – MD & Group CEO

Yeah, infrastructure when I talk about rail, airports, flyovers and roads that's all part of infrastructure.

Mr. Ashish Kejriwal - Elara Capital

Because in August we see that we became a net exporter after a long time. So whether this trend continues that's my question actually?

Mr. Ravi Uppal – MD & Group CEO

You know something I must clarify here; in the last two years the international markets have been extremely erratic. And this erratic wave has been caused by China's thrust into the international markets. Sometimes it goes low; sometimes it comes very aggressively into the international market and they start dumping; they are dropping their prices just to bag an order. And therefore we have to keep tuning our own responses of market, based on how the Chinese are acting. So what we are trying to do is get more into niche markets where we don't sell doggie dog products but we sell products which are high grade, high alloy grade and have very technological profile in the composition. So we are looking more from niches rather than going for commercial grades, low cost, volume driven markets. But we have for example started the export to Iran and this will be a steady load for next 18 months.

Mr. Ashish Kejriwal - Elara Capital

And sir lastly regarding coking coal mines because with increase in prices even you have started your coking mine quickly. So can't we expect the similar thing to happen in US and Chinese miners?

Mr. Ravi Uppal – MD & Group CEO

For what? What for Chinese miners?

Mr. Ashish Kejriwal - Elara Capital

For coking coal mines.

Mr. Ravi Uppal – MD & Group CEO

The problem is USA is very allergic to anything to do with coal. Most of their companies etc. , they are in Chapter 11. I don't think there are easy comebacks because they are also marred into lot of labor related issues. Even lot of people have been laid off, you have lot of litigation activities going on. And in Australia also the environment clearance is becoming more and more difficult. As I mentioned to you the Rio Tinto, Glencore and BHP Billiton, all these companies had to close few of their mines in Australia and other parts of the world. And for them to restart those mines, having done labor settlement, because there in Australia I must just tell you that when you close that mine you have to lay off people and the cost of laying off of people in Australia is prohibitive. So you don't easily start it back because just imagine if they start again and the prices don't stay stable then again they have to close and again they have to pay the layoff cost.

So I think people have to really sort of have to think through very well and other thing people may think that if today's prices have gone to $160 as supposed to $80 we would rather be producing less and selling at higher price than to produce too much and selling at lower price. So, you know I don't think they will come back so easily so that is our estimation, it may be wrong. But based on the various people we talked to to in Australia and also in Mozambique. So they are not coming back there.

Mr. Ashish Kejriwal - Elara Capital

Fair enough Sir. Thanks a lot.

Moderator

Thank you.

The next question is from the line of Mr. Pinakin Parekh of JP Morgan. Please go ahead.

Mr. Pinakin Parekh - JP Morgan

Thank you very much. My first question is sir just trying to understand the working capital requirements on an annualized basis or the firm as a whole to run the steel operations and power plants. What is the net working capital requirement that the company would require if we were to assume current prices sustained?

Mr. K. Rajagopal – Group CFO

Can you little bit rephrase I couldn't get exactly the question?

Mr. Pinakin Parekh - JP Morgan

In a sense that the company would require working capital loans from banks to run the steel operations to run the power plant. If we just look at the annual report I mean inventories plus receivables minus payables that number is around Rs. 2,000-2,500 crores. And as the operations ramp up there would be requirement for additional working capital. So just trying to understand sir what would be that requirement if you can quantify that number?

Mr. K. Rajagopal – Group CFO

Our working capital in steel, our target that we must be able to achieve 30-45 days so you can calculate on that basis that now last year Rs. 12,000-13,000 crores was our turnover that means Rs. 10,000 crores plus. So in a very correct manner we must be having between Rs. 1,500-2,000 crores roughly. So right now we are about 60 days to 75 days so that is what we will try to bring down.

Mr. Pinakin Parekh - JP Morgan

Sure sir. And just extending that question given where our debt situation is and the EBITDA to interest and you did mention that the company is in talks with some financial institutions regarding the overdue interest. Does this mean that the access to working capital can get constrained over the next few quarters unless we see the cash flow situation improve materially? So just trying to understand sir, is there if working capital or access to working capital will be a hindrance to ramping up operations over the next few months?

Mr. K. Rajagopal – Group CFO

Access to working capital or the working capital availability will not be a hinderance. In addition to as said that we are also trying to reduce from 60-75 days to 30-45 days which itself makes available, working capital to any additional working capital requirement made from that. So from that angle we do not expect any issue with this.

Mr. Pinakin Parekh - JP Morgan

Understood. Thank you very much sir.

Moderator

Thank you.

We have the next question is from the line of Mr. Bhavin Chedda of Enam Holdings. Please go ahead.

Mr. Bhavin Cheda - Enam Holdings

Good afternoon sir. Sir, couple of questions, one thing I heard right you said the coking coke volumes from two mines you are looking as one is 85,000 and other is 1,50,000?

Mr. Ravi Uppal – MD & Group CEO

1,50,000 tonnes ROM.

Mr. Bhavin Cheda - Enam Holdings

This is on per month basis?

Mr. Ravi Uppal – MD & Group CEO

At per month basis.

Mr. Bhavin Cheda - Enam Holdings

And from which month you are looking these volumes for?

Mr. Ravi Uppal – MD & Group CEO

In case of Australia it has only started and in case of Mozambique we should have the production, mobilisation has been done, production should be rolling from early October.

Mr. Bhavin Cheda - Enam Holdings

And the second question would be on what kind of PLFs you are looking in the Jindal Power Limited? And what is the constraint right now to take the PLFs off?

Mr. Ravi Uppal – MD & Group CEO

My dear friend I am looking for 100% everywhere because that has been our history. Looking for is one thing and what we get is something different. The way things are laid out just now as I mentioned to you that I do think that we will be running 3 machines of 250 MW and 2 machines of 600 MW at the rated capacity starting from November which basically means total capacity will be about 2,000 MW. And by February-March we are hoping that we will start at least all the 4 machines of 250 and 2 machines of 600 or 3 machines of 600 and 3 machines of 250. If it is 3 machines of 600 and 3 machines of 250 we will be talking about 2,500 MW running. This is based on solid contracts which are allowed on a day to day supply to the national exchange.

Mr. Bhavin Cheda - Enam Holdings

Thanks a lot sir.

Mr. Nishant Baranwal – Investor Relations

We will take the last question now due to paucity of time.

Moderator

Sure. Due to time constraints we will take one last question.

The last question is from the line of Mr. Abhijit Mishra of ICICI Securities. Please go ahead.

Mr. Abhijit Mishra - ICICI Securities

So my question was just to get a sense of this Rs. 20,000 crores of evaluation you have done on account of fixed assets. So if you can just throw some light which are the assets which have got evaluated across steel and power? If you can break it up broadly that would be helpful? Thank you.

Mr. K. Rajagopal – Group CFO & Director

It is on the basis of fair valuation of land, building as well as plant and equipment in steel and Jindal Power and in the major overseas assets. About Rs. 16,000 crores plus in Jindal Steel and Power, it is majorly contributed by land about nearly Rs. 4,000 crores and in buildings Rs. 2,000 crores and another Rs. 10,000 crores in plant and equipment. Similarly about Rs. 2,000 crores in buildings and Rs. 2,000 crores in plant and equipment in JPL. And it is already valuation done and we have done impairment now actually. Some of them are already done last year and Oman is a new plant accepting certain things but it is also already at a fair value which is fine tuned in the coming quarter. So mainly this is coming from JSPL standalone as well as JPL power.

Mr. Abhijit Mishra - ICICI Securities

Okay. Thank you that are all from my side. Thanks.

Moderator

Thank you very much, that was the last question ladies and gentlemen. I would like to hand the conference back to Mr. Kamlesh Bagmar for any closing comments.

Mr. Kamlesh Bagmar – Prabhudas Lilladher

Yeah, I thank the management and the participants for joining the call and I give the floor back to the management for their closing remarks.

Mr. Nishant Baranwal – Investor Relations

So thanks a lot for joining in the call today with us and like I said for any other questions please do reach out to us after the call. Thanks a lot once again.

Moderator

Thank you. On behalf of Prabhudas Lilladher that concludes this conference, thank you for joining us ladies and gentlemen, you may now disconnect your lines.

Prabhudas Lilladher Pvt. Ltd.
3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India
Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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	BUY	:	Over 15% Outperformance to Sensex over 12-months
	Accumulate	:	Outperformance to Sensex over 12-months
	Reduce	:	Underperformance to Sensex over 12-months
	Sell	:	Over 15% underperformance to Sensex over 12-months
	Trading Buy	:	Over 10% absolute upside in 1-month
	Trading Sell	:	Over 10% absolute decline in 1-month
	Not Rated (NR)	:	No specific call on the stock
	Under Review (UR)	:	Rating likely to change shortly