



“Jindal Steel & Power Limited Q1 FY19 Earnings
Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Jindal Steel & Power Limited Q1 FY19 earnings conference call hosted by HSBC Securities & Capital Markets. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rajesh Lachhani from HSBC Securities. Thank you and over to you, Sir.

Rajesh Lachhani: Thank you Inba. Hello everyone. On behalf of HSBC Securities & Capital Markets (India), I welcome you all for Jindal Steel & Power Limited Q1 FY19 results conference call. We are pleased to host the management team from JSPL. I would now request Nishant Baranwal – Head of Investor Relations at JSPL to introduce the management team. Over to you Nishant.

Nishant Baranwal: Thanks Rajesh. Good afternoon everyone. It is said, make hay while the sun shines and there was enough sun last quarter but instead of hay we made steel and profits. With this we welcome you all to our Q1 FY19 earnings call. We have with us today from the management Mr. Ansari – our CEO; Mr. Bharat Rohra – our CEO, Power and Mr. Deepak Sogani – our CFO. To begin the call, I would request Mr. Ansari to begin with his opening remarks. Thank you

Naushad A. Ansari: Good afternoon everyone and welcome to this conference call. As Nishant mentioned in his opening remarks, it obviously shows that the performance which has been done is quite remarkable, so it is my pleasure to share some of these results with you.

If you look at our JSPL stand-alone performance, our production has gone up year-on-year by 36%, revenues have gone up 100% - it is double compared to the last year, EBITDA has gone up by 119% and EBITDA per tonne has also gone up significantly almost by 50% compared to last year, and almost Rs. 1000/t compared to last quarter. Since we are talking about stand-alone, let me also take this opportunity and tell you about how the Angul ramp up is happening. Angul ramp up is happening reasonably well. In such a large plant when you ramp up, there are always methodologies by which you take it to a certain level, then you stabilize it and then you take it to the next level and so on. So, that process in on, we are almost about 55-60% capacity and going forward we are confident that we will achieve what we have promised. As far as Raigarh is concerned, it continues to do well. It is operating close to about 97-98% capacity. Let me now, also go to the consolidated performance.

In the consolidated performance, our production has gone up by 31% to 1.65 million tonne in this quarter. The revenues are up by 71% to Rs. 9,665 crores, the EBITDA has gone up by 68% to Rs. 2,277 crores. In the last quarter we had shared with you that after several quarters we became positive in terms of PAT on a stand-alone basis, this quarter we are very happy to

report that not only the stand-alone basis but also on a consolidated basis we are positive in terms of PAT at to the tune of about Rs. 110 crores.

As far as Oman is concerned which is part of our consolidated performance, they continue to do wonderfully well. In this quarter their EBITDA numbers are close to about \$ 68 million. Now that we have got some additional gas and we are also making some modification in Oman plant, the production levels should increase, so that we can make more metallics compared to what we were making. So, that should certainly help us in reducing our cost. Also, we have put a caster which should also be commissioned by about October or so. After that, in the coming months, our production should improve, so Oman's performance will continue to improve.

If you also look at the overview of steel, we see that there is a market in India which continues to be fairly strong and if you look at the demand pattern which is there, at some point of time the steel demand outgrew this GDP growth and that is something very healthy. Of course, in the monsoon period there is always a little pressure on the long products, but in the coming months I am sure that, the prices which are slightly under pressure at the moment will become better. So, the steel overview looks very good as far as the imports are concerned, Now that the trade war is there, we do expect some pressure but we are well prepared for that, we are very competitive and we think that we should be able to manage any issues coming out of that. In Oman also, in addition to the local markets of Oman and UAE, we have started exporting to other places like Kuwait and we are now targeting Europe. Also, within our own company there are several initiatives which have been taken to make further improvements. Of course, we are operating at fairly high level but there is no end to improvement and we fully believe in that so there are many plans which we have taken up and will result into a very substantial improvement in the overall performance of the company. So, by and large it is a good performance as far as steel is concerned. Now, I want to pass it on to Mr. Bharat Rohra who can talk about JPL performance. Thank you.

Bharat Rohra:

A very good afternoon to all my friends. For Jindal Power, the Q1 FY 19 has been better than the last quarter of the year 2018. But a lot more requires to be done to bring back JPL to its past glory. The availability of coal from the mines which were in the neighborhood was severely impacted during the last year and some of the mines were closed due to environmental reasons. The mine, which was the closest to us and also had a FSA, got restored in this quarter and our coal position improved slightly. However due to severe shortage of coal in FY 18, the stocks at all the IPPs have been extremely precarious and they have been highly aggressive in the coal auctions. So, due to the high prices, we are still struggling to make up for the balance quantity which we require beyond the FSAs,. Overall, the availability of coal from Coal India during Q1 FY 19 has reduced to 137 metric tonnes as compared to 183 metric tonnes in Q4.

The financial performance during the quarter has improved as compared to the previous quarter. We generated 2,751 million units in this quarter as compared to 2,300 million units in

the Q4 of FY 18, which is up by 19%. The NSR has also improved slightly from Rs. 3.49 to Rs. 3.56 per unit. The average coal cost has decreased for JPL from Rs. 2.38 per unit to Rs. 2.06 per unit in Q1. This is primarily due to the availability of the FSA coal which brought down our average coal cost. However, the auction prices have still been very high. The turnover has increased from Rs. 950 crores to Rs. 968 crores and EBITDA from Rs. 265 crores has gone up to Rs. 314 crores. The cash profits have increased from Rs. 98 crores to Rs. 167 crores because of the reduction in the coal cost as compared to the previous quarter. However, when we compare our performance on a year-on-year basis with Q1 of FY 18, the performance has gone down as the generation has gone down from 3,186 million units in that quarter to 2,751 million units in the current quarter. Due to reduced generation and due to increase in coal cost, the EBITDA and the cash profits have reduced because in the Q1 of FY 18, the coal cost was as low as Rs. 1.62.

The plant as such is performing extremely well and the limited units under operation are always giving a very high PLF. However, due to some of the units not being operated due to non-availability of PPAs the overall PLF has been 37% in the current quarter. The PPAs in the long term have all dried up and no long term PPA has come to the market. There have been only short-term power procurement tenders which are just valid just for a few months. We have bagged about 2-3 short term tenders and now as on this date we have long term PPAs for 800 megawatts, medium term PPAs for 200 megawatts and another 500 megawatts under short term and bilateral. The outlook for the current quarter shall be similar to the first quarter, however the company is focusing on arranging coal from more sources and some tie ups have happened which will improve the availability of coal in Q3 and Q4 so that the PPAs of over 1500 megawatts that we have in hand can be serviced properly. Thank you very much.

Naushad A. Ansari:

So, now we will pass it on to our CFO - Mr. Deepak Sogani to talk about the financial performance of the company.

Deepak Sogani:

Good afternoon everybody, I am very pleased to announce a very healthy set of number in the first quarter. They are by and large in line with our annual expectation of financial performance in the current year. Just to run you through the numbers briefly, on the consolidated side our revenues have grown on an annual basis by 71%, on a stand-alone basis our revenues have grown by 100%, our EBITDA on a consolidated basis has grown again on a year-on-year basis at 68% and it is standing at Rs. 2,277 crores versus Rs. 1,353 crores in the Q1 of FY 18. Our stand-alone EBITDA of JSPL has also increased on a year-on-year basis by 119% and it stands at Rs. 1,645 crores versus Rs. 750 crores in Q1 of FY 18. JPL EBITDA in the current quarter was Rs. 314 crores which was down by 33% on account of the factors that Bharat just mentioned. The EBITDA per tonne in our business has also improved very significantly, in the current quarter the EBITDA per tonne is Rs. 13,847 as opposed to Rs. 9,208 in the first quarter of 2018 and Rs. 12,827 in the previous quarter. I am very pleased to announce that after 14 quarters this is the quarter where we have made a consolidated profit after tax of Rs. 110 crores, the same figure in the corresponding quarter last year was Rs. (-

421) crores and the previous quarter it was Rs. (-426) crores and on the stand-alone basis also we have reported a PAT of Rs. (+332) crores as against Rs. (-178) crores in the Q1 of FY 18 and Rs. (+145) crores in the previous quarter. I am also happy to report that Oman's performance is absolutely in line with our expectation for the current financial year numbers and has reported a 68 million EBITDA in the Q1 of 2019. The other thing that I would like to touch upon from our financial point of view is that, based on the operational improvement that our credit rating agencies saw in the Q4 and the outlook that they saw for the current FY 19 we were able to get a credit rating improvement in JSPL from D to -BBB from all the three rating agencies; CRISIL, ICRA and CARE and even in JPL the credit rating improved from -A negative outlook to -A stable outlook. So, there was a very strong recognition from the rating agencies.

On the consolidated debt side and CAPEX side, from a commentary point of view, our consolidated debt reported last quarter was Rs. 42,000 crores and in the current quarter the reported consolidated debt is Rs. 42,670 crores. Although on a net-to-net basis we have repaid some debt, we have also seen an increase on the reporting side due to foreign currency translation method of reporting and because of the movement in the currency from Rs. 65.04 to Rs. 68.58 the reported debt figure increased by approximately Rs. 700 crores. So, on the net we had actually ended up paying Rs. 30 crores. We would also like to report a total CAPEX cash outflow in the current quarter of Rs. 532 crores which is in line with the anticipated CAPEX outflow in the current year. With that I would like to complete my initial commentary on the financials and we are all ready to take any questions that you may have.

Nishant Baranwal: Operator let us start with questions. Since we have the management with us, please ask more strategic questions. We at IR, I and Shweta, are always there to help you with the data questions. And also if we could limit ourselves to 2 questions it will be great because the queue is long. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Atul Tiwari from Citigroup. Please go ahead.

Atul Tiwari: My first question is on the CAPEX number that you told for the quarter. So, does it mean for the remaining part of the year we will do only Rs. 500 odd crores because I thought the full year CAPEX guidance was close to just Rs. 1000 crores?

Deepak Sogani: Yes, I think you are absolutely right. We had said that Rs. 1000 crores is the residual CAPEX that is remaining for our Angul business and we also said that around Rs. 500 crores of sustenance CAPEX will be incurred on an annual basis so the total cash outflow in the current year would be around Rs. 1500 crores which will come down in the subsequent year to Rs. 500 - Rs. 700 crores from a sustenance point of view.

Atul Tiwari: So, basically, the CAPEX that we have seen in the Q1 should come down materially going ahead on a quarterly basis. Well there seems to be some kind of up fronting of CAPEX in the quarter.

Deepak Sogani: That is absolutely correct. If I were to decompose on a very high level out of the Rs. 532 crores almost Rs. 400 crores would be the CAPEX which will not be incurred in the next year.

Atul Tiwari: Okay sir. And, if I try to kind of back calculate your India businesses NSR and the cost on a per tonne of steel basis, the numbers appear to be quite high both on the NSR front as well as on the cost per tonne front. So, any color on that as to why we are getting this kind of high net realizations and high cost in the business?

Deepak Sogani: Let me just start off on that and then maybe Mr. Ansari can add on. We have seen a quarter where the NSRs have improved very significantly by almost Rs. 4000 per tonne. And you can see that our EBITDA per tonne has also gone up in the steel business by almost Rs. 1,020. So, the cost increase that we witnessed in the steel business is around Rs. 3000 per tonne. That has been the core business, now what has also happened is that because we were ramping up our Angul business and we were trying to continuously kind of expand the blast furnace capacity. We at times have produced more of the Granshots and pooled iron and some of these other DRI and pig iron related sales so if I were to give you some decomposition, I think we sold almost Rs. 300 crores of these other by-products and DRI and pig iron and other stuff, which was a part of the ramping up process and which has absorbed the residual cost. So, the higher cost that you see is partially because of the fact that we ended up selling some of the byproducts which absorbed our cost structure.

Atul Tiwari: Got it. And just the last one from my side, any comment on the ramp up of Angul project? What is the kind of per month output that we are seeing from that project currently? And how is it expected to pan out towards next 2 quarters? And when we are likely to see the restart of the gasifier and gas DRI project?

Naushad A. Ansari: When you talk in terms of Angul ramp up, it is composed obviously of several very large units, the blast furnace, the BOFs, the sinter plants and all the material handling, etc., which is there. So, when we talk in terms of ramp up, each of these facilities need to be stabilized at various levels and it needs to match with each other so that we can have an integrated plan and production and that is how we had planned to produce some Granshots and pig irons. The ramp up is going reasonably well but you always want to do better. Angul unit has a very large blast furnace, large BOFs and therefore these units have their own inertia and you need to take them in a defined process to make it happen. First, we stabilize the fuel process, and then we go for the PCI injection etc. Therefore, it might look to you that it is somewhat slower but actually it is very important to run these plants in a very proper manner so that there are no problems. Right now, we are somewhere close to about 55 -60% and as I mentioned that going forward by the year end we should be close to about 85%. And as far as start up of Coal

gasification plant is concerned, you are aware that the blast furnace route is a cheaper route for providing the metallics for BOF and the steel making and DRI route is somewhat more expensive compared to the blast furnace. We want to start only when we reach a level of production in BOF and SMS where it is really called for. As and when we reach a level of close to about 270,000 - 280,000 kind of production, we will certainly the DRI.

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

Amit Dixit: It is certainly very comforting for us to see a tinge of green finally after a long wait. So, my first question is on the EBITDA and free cash flows. Given we had good EBITDA and possibly with this cycle it will sustain. Is there any possibility of us generating a free cash flow this year?

Deepak Sogani: If you look at the larger volume kind of numbers that we have been guiding on, we should be able to do around 6 million tonne in India in the current year. Let us do a mathematical computation on the call right away. So, if we do 6 million tonne and take an estimated average of Rs. 12,000/t EBITDA for the year given the fact in the first quarter our EBITDA is almost Rs. 14,000 per tonne, we believe we should be able to average out at least Rs. 12,000 per tonne in the full year and we should also see pick up in the volumes. Therefore, we can see approximately Rs. 7,200 crores of EBITDA coming in into the business and we have scheduled interest bank payments of around Rs. 4,000 crores, which includes Rs. 1200 crores of scheduled principal repayments. Let's take Rs. 1,500 crores of CAPEX, so we have Rs. 5,500 crores of cash requirements in the current year and if we net it out of the Rs. 1,200 crores of principal that I am repaying then we are talking of Rs. 4,300 crores of usage as against Rs. 7,200 crores of cash generated from the business. I may factor around Rs. 500 crores of working capital which may be needed for Angul, etc., as the business is ramping up. So, if you deduct Rs. 500 crores of working capital still we would be left with around Rs. 3,500 crores of free cash flow in the standalone business. And if you look at the international business, in Oman anyway we are expecting to do somewhere around 300 million of EBITDA and we should have a free cash flow of almost \$200 million from there also. So, ballpark the free cash flow situation for the year at this point of time appears to be very positive. Please note it is not a guidance but only a rough estimate subject to a lot of parameters.

Amit Dixit: My second question is on Oman, since we have received the increased gas allocation so has it come at the increased price or price is as per the old contract?

Naushad A. Ansari: So, the original gas which is available to us is close to about \$3 per MMBTU and this additional quantity which is about 14-15% additional, which makes it \$3.5 per MMBTU, so it is a very marginal increase and overall it really hasn't affected much.

Amit Dixit: And it is for how many years? There is some time component to it or is it for 10 years or something that is the typical contract time I think in Oman?

Naushad A. Ansari: This is for the entire period as per the original contract, so the additional quantity will also be available for the original contract, for 25 years. This could also be extended.

Moderator: Thank you. The next question is from the line of Sanjay Jain from Motilal Oswal Securities. Please go ahead.

Sanjay Jain: I wanted a bit more color in Angul in terms of our casting capacities and the rolling capacities. And what is the status of our expansion of coke oven plants?

Naushad A. Ansari: We had 2 existing casters in Angul; a slab caster and a billet caster. There is another billet caster which has been commissioned only recently. So, now we have 3 casters available. Between them there is sufficient capacity to cast about 5 million tonnes of steel. So, that takes care of the entire capacity of steel making that we have. As far as the rolling capacity is concerned we have two mills; a plate mill and the rebar mill. Rebar mill has a capacity of 1.4 million tonnes and the plate mill originally was about a million tonne and we are already pushing it up. Now, it should be going to close to about 1.5 million tonne. So, altogether the finishing capacity there should also be roughly close to about 3 million tonnes in the times to come. And then the rest of the cast product goes to Patratu, because Patratu has 1.6 million tonne of rolling capacity and these billets which will be cast from Angul are expected to reach Patratu to match their requirement. That covers the entire steel making and casting capacity.

Sanjay Jain: And coke oven sir?

Naushad A. Ansari: Two units of coke oven are already operational and other two units are under construction. One of those under construction is expected to come somewhere between December this year to March next year. And the second one will follow may be another after few months. Right now, the balance coke is being bought from the market. Once the coke oven is up and running, we will be able to use our own coke and cut down the cost substantially.

Sanjay Jain: Looking at all the situation and the challenges that you highlighted in ramping up the blast furnace and the steel production at Angul, what is the right guidance, a reasonable conservative guidance for the steel volumes at Angul and Raigarh?

Naushad A. Ansari: Together in India we are talking about 6 million tonnes of steel in this financial year and combined with Oman which will be a little over 2 million tonne that should be upwards of 8 million tonne.

Moderator: Thank you. Our next question is from the line of Pinakin Parekh from JP Morgan. Please go ahead.

Pinakin Parekh: Sir Two questions, first question is broadly on the production at the standalone entity that has been flat on a quarter-on-quarter basis. So, is there any particular reason or issues that we have

faced in any of the facilities while ramping up? And my second question is on the maintenance CAPEX guidance of 500 crores which is roughly \$70 million. Now, given the facilities that we have, both across steel and power and geographic spread that we have, just trying to understand is this maintenance CAPEX number low vis-à-vis depreciation run rate of 4000 crores annually.

Naushad A. Ansari:

In the month of April we had a shutdown for almost about 10 days. The idea was to find out certain bottlenecks that keep coming up and need to be taken care of. That of course has resulted into a little loss of production. Also, in this quarter one of the issues was logistics in terms of rake availability, raw material etc, that also had a little impact. But largely we are moving as per the plan.

Deepak Sogani:

On the 2nd question Pinakin, where you wanted to get a view on the maintenance CAPEX, you are right, the consolidated depreciation for the year would be around Rs. 4000 crore and our guidance on regular maintenance CAPEX is around Rs. 500-700 crore. The color of that are two things; one from a plant ageing point of view our Angul plant is absolutely new and right now we do not expect any major expenditure to happen on that. Number 2, our Oman plant is also relatively new, and we do not expect any major role in CAPEX on that as well. Even JPL is a very stable plant, not much of maintenance is required there, sustainable operation there as well. Lastly in an ongoing continuous manufacturing plant like ours, we have several regular ongoing maintenances which are small in nature and are taken into our regular operating expenses. So, we treat CAPEXs only those which are kind of material in nature and have to be taken as CAPEX projects separate from the ongoing operations. So, perhaps some part of the regular maintenance gets covered in our expenditure itself.

Moderator:

Thank you. Our next question is from the line of Vineet Maloo from Birla Sun Life Mutual Funds. Please go ahead.

Vineet Maloo:

I just wanted to know what is the balance facilities that we need to commission, for example was mentioned that we are putting up a new Caster in Oman, we are yet to do some changes in the CGP to get the production started there for? So, I just wanted to know what are these balancing facilities which are left, which you need to take care of and what is the timeframe you are looking at, to complete these?

Naushad A. Ansari:

There is no further work which is required to be done in CGP. The CGP and the connected DRI are all 100% ready to be operated anytime. We will start that at the right time. As far as balancing facilities are concerned, in Oman for example we are putting an additional Caster so that we can produce a little more. We had only one Caster in Oman, whenever that Caster was shut down, there was a certain loss of production, in order to take care of that, a new Caster has been put up, that Caster is going to be commissioned by end of October. So there is no further expenditure; required in Oman. As far as Angul is concerned, there are two coke oven batteries which are under construction, they would be completed this financial year, the first one and the

second one thereafter and a Caster has already been setup here. Again, there are no further major CAPEX so, further expenditure in terms of balancing, major thing is not there, however when you build a plant, you make it based on certain calculations, assumptions and so on. As you continue operating it, you find that you can further improve this entire productivity by increasing some minor CAPEX.. So, that will continue an an ongoing process and for that we really do not require very large CAPEX as such.

Vineet Maloo: So, Sir, my question is more with point of view of constraints in achieving full production, let us say, whether it will be any facility, or Oman or Angul, especially Angul because that is where we are looking forward to production going up, so just want to know what are the constraints which exist? What is holding us from firing the CGP again, just wanted to understand the operational part of it?

Naushad A. Ansari: Not really, there are no constraints at all. The coke oven battery which we have talked about is not really a constraint in the sense that it is going to reduce my cost, Today if I want to operate the plant at full capacity, I can still buy the coke from the market and then operate, so it is not really limiting me from operating that but it will certainly cut down my costs and that is the whole idea of putting up the coke oven batteries. There is really no additional major facility which is really required for us to achieve the kind of rated capacity that is there. As far as CGP is concerned, what we have said is that once we reach certain level of BOF production then only it makes better sense to start the CGP and the DRI and that is how we are really planning to do it

Vineet Maloo: Sure, sir one last thing is; since you have a Rs. 300 odd crore of other product sales, why are we selling so much of iron and not really steel?

Naushad A. Ansari: When we are ramping up the process, there could always be little bit of unbalance in one part As long as you can make some extra money, you should sell all that you can, and so once we ramp up close to about 80-85% capacity, then it will only be an opportunity thing. And the whole advantage which we wanted to communicate about additional flexibility that we can have in different products and which can be sold in the market depending on the margins give at that point of time, so it gives us the additional flexibility but today obviously it is the ramping up process which determines that what we sell and if there is any addition which. Does that answer your question?

Vineet Maloo: Yes it does, lastly quickly what is the status on Mozambique and Australia...

Deepak Sogani: Let me take that question, From an international business point of view, we are kind of improving, focusing more and improving the operations in Australia as well as in Africa. In the last quarter in Australia we have seen the maximum production per month of around 50,000 tonnes per month happening, we are seeing gradual progress in the production there; I think that is headline number over there. Similarly, in Mozambique, we are trying to increase the

production rate by almost 50% and that should happen in the current quarter, so that will be again a very large initiative to take our business forward over there. In South Africa, we again are focusing to take that forward. So, I think internationally the current focus is to improve the production in operations. While we are looking at other alternatives also on the strategic side but there is nothing to report at this point of time.

Moderator: Thank you. Our next question is from the line of Rakesh Vyas from HDFC Mutual Funds. Please go ahead.

Rakesh Vyas: Couple of questions from my side. First one on the CGP Sir, is it fair to assume that given the coal situation that exists currently in India, where even the Power plants specially IPPs are struggling to get adequate coal, CGP restart will get deferred till time the coal situation improves materially from here?

Naushad A. Ansari: Not really, as you are aware that before we stopped the CGP we had done enough experimentation with different kind of coal and it was found that a combination of imported coal and indigenous coal can be used to operate DRI. On top of this there are two other factors which I want to tell you; one is that we also have a policy for linkage and possibly that is something which we are following up very aggressively and we are very hopeful that very soon we will have some linkages available for that, so that should really provide sufficient coal. On top of it for DRI, we are also wanting to use almost 25-30% of the coke oven gas because idea is to use 70-75% syn gas and 25-30% coke oven gas, so that overall cost can be reduced substantially, So, we are not really worried on that scenario, we think that once this linkage is available and even before that we will have imported coal, that is something which we can start with, the only thing we are waiting for is the DRI.

Rakesh Vyas: Got it Sir and my second question is on standalone P&L, so depreciation quarter on quarter, 4th quarter versus 1st quarter has increased by almost Rs. 100 crore and if I annualize it and then look at the capitalization that would have happened, it is almost more than Rs. 6000 crore, can you throw some light what am I missing?

Deepak Sogani: This is the capitalization of the BOF primarily, large part of that is BOF, Angul.

Rakesh Vyas: So, the capitalization happened only in 1st quarter not in the 4th quarter, is that the correct understanding then?

Deepak Sogani: Yes it happened towards the end the 4th quarter that is around mid of March. The capitalization actually took place in the last quarter, however the depreciation charge relating to the capitalized costs came in to the books for the last quarter only for around 15 days and in this quarter it is coming for the full 3 months that is the difference.

Moderator: Thank you. Our next question is from the line Parthiv Jhonsa from NVS Brokerage. Please go ahead.

Parthiv Jhonsa: My question is basically on your International operation, so I just want to know when Mozambique, South Africa and Australia are fully ramped up, what would be the total coal which will be coming out from there?

Deepak Sogani: It is kind of difficult to give a commentary on it at this point of time as to what will be the full production at these businesses because to take them to their maximum potential certain capital expenditures and other tests may have to be taken. At the management level, right now we are focusing on the cash performance from these businesses. And therefore, our near-term focus is to double the production of Mozambique, Australia and South Africa. .

Parthiv Jhonsa: And my second question is very general to the business basically. Just want to understand like four, five months in the year already over, so how do you perceive this in the next seven months to go when it comes to the steel industry as a whole?

Naushad A. Ansari: You know, if you look at the Indian Steel business as such, we certainly see that there is quite an upward demand on an overall basis for the entire year. One reason is that there is very substantial expenditure in the infrastructure sector which is happening. I think that the capacity availability is already quite large in the country and no new capacity is likely to come very soon and even in the next few years, because the bank loans are not so easily available now anymore. So, therefore, I think that in years to come and certainly for this year we do think that demand will continue to be strong and with that kind of supply, I think the prices are expected to be fairly robust. So, we are very hopeful that the steel business will continue doing as then for the year as it has done in this Quarter 1.

Moderator: Thank you. Our next question is from the line Saumil Mehta from BNP Paribas. Please go ahead.

Saumil Mehta: With respect to the commissioning now for the Angul, have we capitalized the entire CAPEX or there is some CAPEX yet to be capitalized and what would be the final number on the entire plant?

Deepak Sogani: The large bulk of CAPEX has already been capitalized. There are some small projects under coke oven batteries that are required to be capitalized. So, I think in relation with the total capitalization that has already happened in Angul, if I may want to take a view, I could say maybe around this point of time not more than Rs. 500 crore more of capitalization is remaining.

Saumil Mehta: And now Angul barring the CGP is what to be the gross block at the Angul plant?

Deepak Sogani: Well I do not know whether we are segregating the CGP gross block v/s the total Angul capitalization v/s our total capitalization. It would suffice to say that obviously it was a large investment that we made, and we took prudent steps to kind of re-calibrate our plant to make it to relevant with the revised configuration available to us. And we are still trying to leverage the CGP as effectively as we can. So, that will follow in due course.

Saumil Mehta: And my last question; I just missed out, when do we see the optimal utilization of the Angul plant, the plant hitting at 90%, 95% utilization, will it take two more quarters or might be extended end of FY19?

Naushad A. Ansari: As I said that by the time this financial year ends, we should be somewhere close to about 85% capacity or so on. Right now, as I mentioned the ramp up is, happening quite okay. I might look a little slower, but the fact is we just want to make sure; everything remains safe and so on. We, Therefore, by the time this financial year ends, we should be somewhere close to what we expect at.

Saumil Mehta: So, at FY20 the first assumption should be that the plant should be operating at optimal realization along with any benefits of in that.

Naushad A. Ansari: By optimal if you mean 100% capacity, is that what you really mean by the term optimal?

Saumil Mehta: +90%.

Naushad A. Ansari: Yes, As I said we should be exiting FY19 at around 85% capacity, so certainly in FY20 certainly it should be that capacity.

Moderator: Thank you. Our next question is from the line Rajat Agarwal from Ajinkya Securities. Please go ahead.

Rajat Agarwal: The debt reduction cycle which we have planned, the degree of impact the foreign currency fluctuation is taking on that and how much debt we will be reducing in the next one year?

Naushad A. Ansari: I think we do not have any significant foreign currency debt in this standalone business that is the point number one. We have foreign currency debt residing in our Oman business, in our Mauritius Business and Australian business. The Oman balance sheet is our foreign currency balance sheet where the revenues are also in foreign currency, even the Mauritius take out is largely expected to be from the Oman cash flows. So, we have clear hedge available for the Mauritius debt as well and the Australian balance sheet is also is primarily a dollar balance sheet. So, the reported change in the consolidated debt was primarily a foreign currency translation related issue rather than an economic issue within our hedging challenge. So, I think that is one point, now in terms of the second question on how much debt we will be able to retire, I think on a normal basis we have close to Rs. 2500 odd core of principal to be repaid

in the current year between JPL standalone, JPL and Oman and we have free cash flows as we discussed earlier. We have around Rs. 2000-3000 crore free cash flow coming in India and maybe another Rs. 1500 crore in Oman. So, between this Rs. 4000 odd crore of free cash flow, could be available for repayment; net of CAPEX.

Moderator: Thank you. Our next question is from the line Abhishek Poddar from Kotak Securities. Please go ahead.

Abhishek Poddar: Sir there is the other operating income for the first time that you have reported in many quarters of Rs.1.3 million, could you explain what is the reason for that and second is; also we have seen an interest cost decline by about 9%. So, what is the average borrowing cost and what level of interest should we see here on?

Deepak Sogani: This additional operating income of Rs. 60 odd crore is what you are referring to, right?

Abhishek Poddar: So, on the consolidated side; about Rs. 125 crores.

Deepak Sogani: This other operating income primarily relates with the sale of some of the by-products and sale of some of the scrap related items, small items in the overall sales.

Abhishek Poddar: Do you think that business to be a continuing one or this will go?

Naushad A. Ansari: No I see it continuing at half of this level anyway, from the numbers that I see right now. So, we should see at least half of it to continue.

Abhishek Poddar: Sir is there any specific reason for interest cost to decline sequentially and what would be the borrowing cost for this quarter, for the consolidated entity?

Deepak Sogani: Clearly there has been a bit of reduction in interest rates based on our improvement in the rating, we are expecting some other banks also to pass on some more interest benefit to us. The second reason why this happened is because we started repaying the debt early in the quarter and some of the planned additional borrowing happened later in the quarter, in small amounts. I guess even that led to a part reduction in the interest cost. And we also saw some refund coming in from the income tax department which led to reduction in the interest costs. Between all these 2-3 things that I spoke about, yes directionally we have seen some cost reduction in the interest rates. We have seen a small decline in the debt levels also. And directionally we should be able to see further decline in our debt levels and interest rates also should come down but on the other hand we see the interest rate cover also hardening, so between the two of them we are still taking a view that the overall interest rate may not come down significantly but the cost will come down because the debt levels will come down.

- Abhishek Poddar:** Just one last question; on the notes to account you have mentioned that there is an NCLT case where about Rs. 1297 crore is paid to a vendor, could you explain what is the nature of this transaction and why this money has been blocked by them?
- Naushad A. Ansari:** We had been taking some iron ore fines from Sharda mines where we had given some advances in past and those advances and some of our iron ore fines are stuck up over there and that company has obviously now gone into NCLT.
- Abhishek Poddar:** So, we expect this to be recovered, is it?
- Deepak Sogani:** Yes absolutely. We obviously have lodged our claim, they have a fair amount of liquidity in form of the assets that are available there, they have almost 12 million ton of iron ore fines available at their mines. So, the mine has a lot of cash value, as and when their issue gets resolved for them, we should be able to realize that cash.
- Moderator:** Our next question is from the line Gopal Nawandhar from SBI Life Insurance. Please go ahead.
- Gopal Nawandhar:** Can you just help us understand why this raw material cost quarter-on-quarter has gone up by Rs. 7000?
- Naushad A. Ansari:** Yes, as you can see that our EBITDA per ton has gone up by Rs. 1000, the steel making cost has gone up by Rs. 3000, the additional cost that you are seeing that has gone up is relating to the sale of the by-products as we discussed in the call earlier, we had additional sale of Granshots, pooled iron and pig iron and other by-products in this quarter. In the process of ramping up we have obviously sourced on by-products in addition to steel and the cost that relates to these by-products is the additional cost that we are talking about.
- Gopal Nawandhar:** So, how should we look at, you know what should be the amount or the normal raw material cost increase quarter-on-quarter?
- Deepak Sogani:** I think I said that NSR went up by Rs. 4000 and steel making cost went up by around Rs. 3000.
- Gopal Nawandhar:** You are saying entirely so whatever like we are reducing from the revenue, this Rs. 300 odd crore is to be removed from raw material cost.
- Deepak Sogani:** You are right. And directionally, Angul starts operating at little higher level, we will certainly, see significant benefit of Rs. 2000/Rs. 3000 per ton coming in from Angul once it stabilizes. Right now it is not stabilized, it is moving gradually.

Gopal Nawandhar: And these kinds of sales of by-products, these will continue for some more quarters or how should it be looked?

Deepak Sogani: We are trying to ramp up the blast furnace and we are trying to do the balancing of the plant in Angul. In that process, we are obviously kind of leveraging the value of the by-products to enable us to test the plant at different levels, at a component level. Otherwise, we will have to run the entire plant in a balanced finance if we make only steel, the flexibility to make these by-products and to sell them allows us to test blast furnace at a different level, BOF at a different level and while the plant is still in the balancing mode, some more by-products may be seen in our P&L but eventually like a driver we do not see much of them. Once Angul is stabilized, you know it should come down.

Gopal Nawandhar: Can you just help us understand how the steel prices are currently v/s average of last quarter?

Deepak Sogani: If you look at the steel prices in, we have already seen that the NSR in the last quarter has gone up significantly and if we talk about the current prices, let say as we speak, so obviously in the monsoon period the long steel prices in India normally comes down because the construction slows down, Generally this happens every time in India. This time the demand for the long products is reduced therefore the prices marginally come down especially for the long product and not so much for the flat product. So, for example, in the long product I had imagined that compared to last quarter the prices might be down, by about 2.5 to 3 thousand but we also see very positive stance in the sense that only few days back the secondary sector has started a putting up the price which indicates that we have already bottomed up and from now on the prices are going to go up, so I am very hopeful that by middle of September or so the prices will be somewhere very close to what they were in the month of June.

Naushad A. Ansari: See from the indications we have, it appears that whatever inventory levels were there in the market for long has come down and we will obviously see a significant price improvement in the coming months. So, that is our broader thinking over that.

Moderator: Thank you, Ladies and gentlemen, that was the last question. I would now like to hand the floor back to Mr. Rajesh Lacchani for closing comments. Over to you Sir.

Rajesh Lacchani: Thank you all for joining the earnings call. I will hand over the call to the management for any closing remarks, over to you Sir.

Naushad A. Ansari: Thank you very much, I would like to thank all of you for so much of interest in the company and secondly it has been a wonderful quarter. There is 1 more news which I wanted to share at this point of time. You might have already read that after a struggle of almost about 14-15 years, we have finally been able to get Indian Railway order for the Rails and that is a very substantial order of close to about 100,000 tonnes, close to about Rs. 560 crore or so. So, this opens up a chapter for us because for so long we were really trying to get these orders. Now



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within India itself, we are in a position to supply rails for all the passenger traffic, so far we had supplied was more for freight, etc. Of course, we have been supplying rails outside India for passenger but in India this is going to be the first time. So, this is really a very major breakthrough for us and we wanted to share that information also with you. And in the closing remarks, I also want to tell you to be rest assured that Angul ramp up plant is happening quite well, the site work might look like a flatter production in this quarter compared to last quarter because we just want to make sure that everything really gets very well and you will see the results in the later half of this year. So, thank you very much for being here.

Moderator:

Thank you, Ladies and gentlemen, on behalf of HSBC Securities and Capital Markets that concludes this conference. Thank you for joining us and you may now disconnect your lines.