"Jindal Steel and Power Limited Q4 FY2016 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the JSPL Q4 FY16 Earnings Conference Call, hosted by Investec Capital Services. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Ritesh Shah. Thank you, and over to you, Sir!

Ritesh Shah: Good afternoon everyone. Thank you all for joining us to this call. We are pleased to host the management Jindal Steel and Power. I will hand over the call to Nishant Baranwal, part of the IR team, and would request him to introduce the management. Nishant, over to you!

Nishant Baranwal: Thanks Ritesh. Good afternoon everybody. This is Nishant Baranwal from the Investor Relations team. We welcome you all to our conference call to discuss the fourth quarter and fiscal year 2016 financial results. Today we have with us our Group CEO and MD, Mr. Ravi Uppal; our Group CFO, Mr. K. Rajagopal; and CEO of our Global Business, Mr., Rajesh Bhatia. To begin the call, I would request our MD and Group CEO, Mr. Uppal to make the opening comments. Sir over to you!

Ravi Uppal: A very good afternoon members of the financial community. It is always a great pleasure to speak to you. Of course, how much I wish that I have a chance to see you face-to-face, but nonetheless, we have to make it good, so I will at least be reaching out to you through the voice system.

I wanted to speak to you broadly about the Company's performance in the fourth quarter and that also wraps up the financial year 2015-2016. I am very pleased to tell you that the quarter four actually marked a turning point for JSPL when it comes to its operations. From the middle of February, as you know, the government took some measures to introduce the MIP, and thereby also restricted the imports. But as luck would have it, internationally also the prices started rising. And as we sit here today, in many commodities, the prices of steel internationally are higher than the MIP prices that we have in the country.

I think the steel industry has seen a substantial uptick in the prices and therefore, in the fourth quarter it really came as a big relief to the entire Indian steel industry, including JSPL, and inspired by the proactive steps which were taken, we also saw to it that we really take excellent steps to deliver our maximum possible output, because there was some buoyancy in the demand, because the imports in the country, which were of the order of 14 million tonnes, about 1 million tonne per month, this started to come down, not completely gone, because the importers were carrying huge stocks of the imported steel in their stock yards, which would last them right up to end of April or middle of May. But, nonetheless, the policy introduced by government, the quality order, the MIP, all of them together saw to it that the imports of steel come down. I reckon that going forward the total volume of steel will not be more than 4 million tonnes to 5 million tonnes as worse the case before 2014-2015. And this essentially means that more steel out of domestic consumption will become available to the domestic manufacturers, which was earlier being catered by imports.

Then the Indian steel demand per se is also growing at a rate of 4.5% to 5%. We do think that this demand will perk up during the course of this year, because a lot of government projects on various fronts, whether it is about the infrastructure, irrigation, rail infrastructure, road infrastructure, all of them have started to move now, and I think that will definitely spur the demand for steel, and the other good news is the Ministry of Housing and Urban Development, a fortnight ago has taken out a circular clearly stating that all the public buildings in India have to use steel for their construction. So I think these kind of qualitative measures, policy measures taken by the government definitely will help to perk up the demand for steel.

The other thing that has happened is that a lot of private sector companies, keeping in view the short cycle of steel buildings, especially for commercial space have also switched over to construction using steel, for making the commercial space, especially high-rise buildings, which can go up to 50 to 100 storeys. All in all, I think the trends that we see in the environment, they bode well for the steel industry, especially Indian steel industry. And adding to that, the increase in international prices of steel will also help us to push up the exports.

During the last one year, export from India has dropped dramatically because the markets were getting flooded by Chinese and Korean exports at very low prices and so therefore, all Indian manufacturers took the call of not going into exports. But in the last two months the exports have really risen, and we saw that already happening in the month of March, and during month of April, again the exports have started to rise. So I think the good old days will certainly seem to be in sight. I do feel that India's exports in 2014-2015 were about 6 million tonnes and we were a net exporting country. I think we should be able to get back to that position.

So, on the demand side, performance was spurred by the rising international prices, plus stimulated demand. That adds to that JSPL's total quantity compared to the same quarter, Q4 last year, it went up by 37% and on an annual basis also it went up by 45% in terms of physical volume and if you look in monetary terms, it went up by 18% on quarter-to-quarter basis and about 12% on an annual basis. I think this is a very positive development, because that we all this while we saw that there was lot of gloom in the steel industry starting from October 2014, all the way up to February this year.

So I am just quite hopeful that with Chinese having decided and having acted to close down capacity of 100 million tonne plus, that and the China's own development plans are being kicked up by the government, the prices of steel will remain at least at the present level, if not increase. I personally think that they will still continue to go up. A lot of Chinese steel dealers have taken forward positions because they think that the demand in China is going to perk upf, which will also give a steady trend to the prices of steel.

So, we have higher volumes, better price realization. The price realization started to improve from middle of February and we did harvest some benefit out of this up to the end of March, though, not entirely, because as I said that there were lot of stocks, which were built, acquired by the importers, and they made sure that the prices do not go up. But come April, May, I do see that the price of steel will continue to look up and we have seen in the month of April they are improving so, a better and a sounder yield and higher volumes. Both of them saw to it that compared to the previous quarter, our EBITDA level, or JSPL's standalone went up by nearly 59% and consolidated we went up at 63%.

So I think I am sure that it will come to you as a very refreshing change. And this is not a flash in the pan. I think this is something I am very optimistic we will be able to keep up. Even now, as we speak to you on May 5, the demand sentiment looks pretty encouraging, pretty good, so therefore, going forward, I have a very positive outlook when it comes to the steel business.

A few words about some new plants that we commissioned, I think in very good time. I am very pleased to tell you that we have upgraded and modernized 1 million tonne plate mill in our Raigarh unit. Casting was already commissioned a year ago, a brand new plate mill, which is doing the widest plates and coils in this country, has been commissioned now, and absolutely state-of-art, highly automated mill. And along with that we also commissioned, we are very proud about it, our rebar mill in Oman. A 1.4 million tonne rebar mill has been commissioned there. So that excellent asset that we have in there continues to put on more and more value, and give it more and more value for JSPL as it grows.

Along with these developments, we also took multiple initiatives to reduce our costs. Firstly, the input material management; secondly, increasing productivity, reducing quality curb, all these were taken together, I am happy to share with you that during the year 2015-2016, our net costs actually went down by about 16% on the product manufacturing. We had to take all these steps, because we pass through a very formidable time when the international prices month after month continue to look down, thanks to dumping by certain countries. So I think we have now come to a position where our capacity is all ready to take the enhanced demand from domestic markets, as well as from the export market. And I do foresee that in the year 2016-2017 your Company will post a very good performance when it comes to steel and the pellets business.

We have a very positive outlook, and I can assure you without really putting down a specific number that we do look forward to a high double-digit growth in our steel business, both in terms of physical volume, as well as the monetized value of the business. And we do see that in small steps the EBITDA levels will continue to improve. As you have seen that in the fourth quarter the EBITDA level had jumped back to 19% on JSPL standalone and JSPL consolidated, we are at 17%. Both of them are improvement over the previous quarter, the Q3. And so, therefore, we remain resolute, we remain firm in pursuit of our goals. We have worked silently, enduring the market challenges, but I think now we are very firm on feet and we are confident that the amount of resilience, endurance that we have sort of demonstrated is going to hold us in good stead, and going forward your Company will deliver a very robust performance.

I also just want to mention in case it got unnoticed by you that the pellet production has also increased by folds during this year and in quarter four, we had a record production and delivery of pellets. The pellet prices, along with steel had also touched all-time low, but I am pleased to tell you that there is a lot of pull from the export market. We have lot of orders from China and we also have demand from our own plant in Oman who is very happy to import pellets from us. Government in the recent months had reduced the freight rate and they had also taken away the duty on pellets. I think that is also a positive development for us to export more and more of the pellet. So this year, which has just set in, I can assure you that we will have an all-time production from our both pellet plants and we'll take you to the full capacity utilization.

Let me say a few words about power. On power, as you know, that we have of course very good assets, second to none, and they are the entire time ready to deliver. But unfortunately, the demand for power in the country has not really picked up to the extent that government was targeting and hoping for and this has resulted in a relatively low offtake from all the power plants across the country where the utilization PLF has touched a very low number. So the government is aware of it. It has not that everybody has power and power to purchase surplus. I am sorry to tell you that large parts of our country still go without power between 10 hours to 12 hours everyday. It is just that the poor health of the state utilities and the DISCOMs has discouraged them from buying power from companies. So they would rather do load shedding than to buy power, which they cannot pay for and they cannot afford. But going forward, now that UDAY program has been implemented by the federal government all these states have signed the UDAY agreement, and the government has taken away 75% of the total debt carried by them, what they call as a toxic debt and for the balance 25% they are allowing them to issue bonds.

So I think with these things coming into effect, the health of DISCOMs should get restored and if they have signed up the UDAY agreement with the federal government, they are bound by certain policies and they cannot flout them, they have to make sure the power remains a profitable commodity for them to sell and they do not subsidize and ask for more assistant from federal government, because then they will be acting against the spirit of the agreement they have signed under UDAY with the government.

So coming forward, I think power demand will pick up. The wheels of economy we can never move until there is power let us have no illusions about that. So I think last quarter, in particular, is a quarter when demand was typically low, because it is neither winter nor it is summer. So the demand becomes relatively low in the fourth quarter, but I'm hopeful as we go into the summer quarter of Q1 and Q2 the demand should definitely look up and the power offtake should improve.

So that is broadly the summary of what I wanted to share with you. And as we speak to you, we speak to you with a renewed vigor, with more optimistic outlook and I think all the investments that we made in the past, they all have come to the point, they are ready for delivering the value out of them, whether it is our plant in Oman or it is our plant share in Angul, Raigarh, Patratu all of them are doing a pretty good job. And I am happy to tell you, in about a month from now, one of our rebar mill, which we started building more than two years ago, that it will also get commissioned and with that we will be able to deliver another 1.4 million tonne from the Angul mill which will cater to the states in the southern part of the country and the western part of the country and we can cast a bigger net for the construction market.

I am also happy to tell you that we have made a very good entry into the construction business. Since there is a trend for steel buildings, as JSPL has the widest range of structures, the columns, the beams, speed floors, welded mesh, many products, which go into making a building, we have made a very good entry. Who's Who of the industry have given us very prestigious orders, and this is one segment that we are going to cultivate whereby we will generate still further demand for our steel products, plus we will get a place of pride in the civil construction sector.

We continue to do well with rail. In the last quarter we got the big order from GMR. I am happy to tell you that we have now concluded the big order from State Trading Corporation for 150000 tonnes of rail, which they will supply, to Iran and the LCL has come everything is now done. So your Company has a fairly comfortable position when it comes to the order intake. It is for us to now just make sure we execute it and take it forward.

So thank you all for joining. I just wanted to give you a broader outlook and a broad coverage of how I think we did in the previous year and what's the outlook going forward. Thank you very much for listening to me patiently and if there are any questions, later we can take that.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. We have our first question from the line of Atul Tiwari from Citigroup. Please go ahead.

Atul Tiwari: Good evening Sir. Sir, you may spoke about cost reduction of about 16%, so I am assuming that it the conversion cost in the steel business that probably you were talking about. My question is that is there further scope to reduce the conversion, as well as the logistics cost in the steel business, or now you have been squeezed out all the cost efficiencies?

Ravi Uppal: I must tell you one thing; you never come to an end in this matter, because if you say you have come to the end, then it means you have run out of ideas. So when I was talking to you about a reduction in cost, it is basically not only conversion costs, it is also included its old cost from the more economical procurement of raw materials. So it takes both of them. We continue our efforts to reduce costs. We are very confident that there are several areas where the costs can be reduced, building more efficiency, you raised a very interesting point about logistics. We think logistic is one area where we can really build up lot of efficiency, reduce cost, and towards that end we had just set up one joint venture with Agarwal Packers, in which we have 50% holding. Agarwal Packers, who have a countrywide name in field of packaging and transportation, they are our professional partners with domain knowledge. This company is now going to take over logistics from all our plants in India and we think that we will not only reduce cost, but also the quality of our delivery and the timeliness also we will be able to improve substantially. So, this is one proactive step that we have already taken, based on what you were asking.

Atul Tiwari: In the new business, the construction business, the construction of commercial buildings, we understand that you have got a few orders in Noida, etc. Just to very broadly understand the economics to a builder, what will be say the per square feet cost of construction under the new method that you guys are doing using steel?

Ravi Uppal: You are asking me to share with you the trade secrets. So, but nonetheless, I will share them with you gladly. When you do the steel structure-based building, these basically enable a builder to set up the whole thing very fast, like a Lego house, because you have steel columns, you have beams, and you have speed floors, you have also partition walls, we are using MgO Boards etc. So the whole construction period, which is typically, let us say, for a 36, 40 storied building, can go up to 36 to 39 months before you give the possession. In this particular case, we can crash it to less than half, which means in 15th month, we can give the possession of the building.

So as we get into new era of construction, I want to tell you, one very important factor is to reduce the total gestation period, because the people who buy space, they are not willing to wait three and a half years, continue to pay money and continue to incur interest cost.

So, interest cost in a country like us, where it is double-digit interest costs, people are very sensitive about what time it takes for them to take possession of the asset. So I think builders are very encouraged by that and they also feel that India is a seismic country and especially in Northern belt and many parts of Maharashtra and Gujarat are highly seismic, they are zone three, four and five. Because of the higher seismic activity, the steel-based buildings are much more rigid and they can endure lot more of seismic activity than anybody else. For example, we are being asked by India Army and the Boarder Security Force to set up for them in the hilly regions of Jammu, Kashmir, Himachal and other places to set up their buildings and camps using the steel structure; easy to erect, fast to erect and very rigid and very solid.

So I think I see a new era coming in. I can tell you that we got a big order to execute one of the e-commerce, very prestigious e-commerce company of India; you all know it, Flipkart. Flipkart is building up a couple of million square feet in Bengaluru, so we are going to supply some 20,000 tonnes of steel structure for that. There are many other shopping malls. As you said, you go to Noida. There are four buildings, which are coming up in Noida using steel structures. We are also going to offer housing of up to three to four stories quick-erect building, economical, using steel structures.

Atul Tiwari: Sir lastly, just one bookkeeping, just one more. Consolidated net debt if you please. That is my last question.

Ravi Uppal: My colleague, all financial points, my colleague Mr. Rajagopal will take.

K. Rajagopal: Our net debt is about Rs.46000 Crores.

Atul Tiwari: Thank you.

Moderator: Thank you. The next question is from the line of Sumangal Niveta from Macquarie. Please go ahead.

Sumangal Niveta: Congratulations on the strong results. Couple of questions. Firstly, Sir, if you can share what was your coal mix in 2016, and how is the mix expected to be in 2017, say in terms of linkage, e-auction and imports?

Ravi Uppal: Well, we have two plants, two x 600 megawatts, which have a coal linkage, okay. And then we have four units of 250 megawatt, where we do not have a coal linkage as of now, because we have actually got a coalfield where we were most competitive, the Tara field, but that decision is still not taken yet. Therefore we have been sort of buying our requirements of coal to get the plant running from the neighboring mines in Chhattisgarh and touch wood, we have been able to meet our entire requirement of coal as we wanted. We never had to wait for coal to produce power. The only thing where there can be improvement from the external system is the demand for power. But as per our ability to produce and deliver power, we did not have any issue including coal, because we are surrounded by coal all around. The Coal India production has gone dramatically up by 8.5%, last year they touched 515 million tonne of total production and they have been auctioning very regularly. I don' think there is any kind of issue with regard to coal availability.

Sumangal Niveta: So what is the difference in cost from e-auction and linkage cost?

Ravi Uppal: Well the difference is certainly there. I would say the difference could be on a per mega kilocalorie it could be about 15% to 20%.

Sumangal Niveta: Thank you.

Moderator: Thank you. The next question is from the line of Ravi Shankar from Credit Suisse. Please go ahead.

Ravi Shankar: Good evening Sir. Wanted to know the repayments that are due in the next 12 months and beyond at the consolidated level, and some guidance on the capex?

Ravi Uppal: My colleague Rajagopal and Mr. Rajesh Bhatia will answer this.

K. Rajagopal: Next year the payment dues are about Rs.2000 Crores, but we are also working on some of the rescheduling and elongation arrangements with banks. Once those completed it will be around Rs.1000 Crores only.

Ravi Shankar: This is FY2017 you are saying, Rs.2000 Crores?

K. Rajagopal: 2016-2017, yes.

Ravi Shankar: Of which Rs.1000 Crores is yet to be rescheduled?

K. Rajagopal: Once we do the rescheduling and elongation arrangement then the payment which we have to make is only Rs.1000 Crores. From Rs.2000 Crores it will become Rs.1000 Crores.

Ravi Shankar: That is the liquidity requirement right and Sir on capex?

K. Rajagopal: On the capex in 2015-2016 in JSPL, we have spent about Rs.3000 Crores and in Power we have spent about Rs.600 Crores, and in overseas about Rs.700 Crores.

Ravi Shankar: And the guidance for next year?

K. Rajagopal: Guidance for next year is because we are also thinking, planning to complete our Angul, that is our main plant, and for which we have to tie up some other funding arrangements as well. And so we must be spending around Rs.2000 Crores.

Ravi Uppal: Well, I would just intervene to say that we are going to be extremely frugal on any new investment. So any new investment, it takes a backseat and as Mr. Rajagopal said, there are some parts of the old Angul expansion, which remains, we will try to sort of complete that, but only after we have the financial resources. But no new projects we are going to take.

Ravi Shankar: Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Saumil Mehta from IDFC Securities. Please go ahead.

Saumil Mehta: The first question, what was the average coal cost for this year, and any update on the Sarda Mines? How will the accounting work once we see the iron ore inventory being allotted to you?

Ravi Uppal: You are mixing two issues. Let me separate them. You are talking about coal, or you are talking about iron ore? But, let me answer both of them. I said that for two units we get the coal under a linkage scheme, and for other units of 250 we buy it from auction. The auction coal typically, on average, on a delivered to project basis comes to about Rs.0.75 to Rs.0.78 per mega calorie. And if you look at the linkage coal, the cost is about Rs.0.60 to Rs.0.62 per mega-kilo calorie. That is one.

The second one about Iron ore, iron ore fines or lumps. You know that we have one mine of our own, where we produce 3 million tonnes with the Tensa Mine. And then we buy rest of the iron ore fines from the neighborhood. There is huge number of mines in our neighborhood in Barbil and Angul from where we buy the iron ore fines. Luckily, in the last one-year many new mines have opened, and therefore the production of the iron ore fines has gone up dramatically. In 2014-2015, the total production was 145 million tonnes, but last year, finishing of March 31, 2016, the total production went up to 185 million tonnes, and I reckon that now the government has started allowing export of low quality iron ore fines, that is below 58 and less, more mines will be tempted to go into production and start selling in the domestic market as well as export the low grade iron fines. I do reckon that in the year 2016-2017 the iron ore production will be in excess of 200 million tonnes. Now, that would be in excess of 200 million tonnes. Now that would be very helpful to steel industry because that will help to keep the iron ore prices low.

Saumil Mehta: I was more referring to the Sarda Mine. We have received some government orders to use the inventory line.

Ravi Uppal: If you are asking about our own stock which was lying at the mine for which we already paid, yes. We have some of our iron ore fines that are lying there. The Honorable High Court of Odisha has given the judgment in our favor, asking us to move the fines, and after the judgment has come, it has, as a routine, referred to the government for their endorsement. So it is going through their process and I am hopeful that in the next couple of weeks, we should be able to do it.

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

Pinakin Parikh: Thank you very much. Two questions from my side. The first question is on the standalone steel sales volume guidance for FY2017. How should we look at it from 3.3 million tonnes and then what product categories do we broadly expect? And my second question is on the results release, there is a line item saying that the parent company has basically approved the sale of the CPPs to JPL. Any particular reason why this has been done and also there was an advance of Rs.2500 crores, which has been received, from the subsidiary. Did the subsidiary borrow this money? I mean how did the funding take place?

Ravi Uppal: Let me answer the first question about the steel guidance. You know that I already said in my covering comments that we have a very positive outlook about steel going forward, both from domestic as well export market. We are estimating that we should be able to grow, if everything continues and there is no major disruption, at the rate of at least 20%, 25% next year. I think we are actually poised to deliver more and more of steel in the next year.

As regards your other question about power, there was a stage when we were saying that we will reconsider our power, to bring them under a common umbrella by shifting it from JSPL to JPL, and so that process is underway and post this announcement that we will sell our asset, 1,000 megawatt to JSW. We are now going into a completely new structure, taking into cognizance the old process as well as the new announcement and in a matter of month or two we will come with the details.

Pinakin Parikh: Lastly on the steel, 20%, and 25% in the India business as well, so 3.3 should go to whatever plus 20% higher and that would be plates or would that mostly be long steel?

Ravi Uppal: No, no, all of them. See, in the plates we now have a total capacity of 1.0 million tonne in Raigarh and we have 1.2 million tonne in Angul. So total plate capacity is 2.2 million tonne. So what we are targeting is that we must be able to produce at least about 1.4 million tonnes to 1.5 million tonnes in the year, which is coming. So gradually we are ramping up. The plate will deliver a lot. Our TMT rebar business, lot of new capacity is coming, where once again; there will be a quantum leap. So there are all these sectors. And then we will also come into the market in a much bigger way for sharing the semis, rounds, and billets. So all across it is there.

Pinakin Parikh: Thank you very much.

Moderator: Thank you. The next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.

Bhavin Chheda: Two questions. First question on the deal, there are two numbers, which are given, Rs.6500 Crores and a minimum valuation of Rs.4000 Crores, depending on the two conditions to be met. Can there be in-between value also or these are the only two numbers at which the deal would happen? Can the deal happen at Rs.5000 Crores, Rs.5500 Crores?

Ravi Uppal: We do not want to get into these kind of in-between solutions now. We have been given certain time, we will work and make sure that we will meet the CPs and we think they are doable and given the way that things are panning out, as of now it is Rs.6500 Crores. And if we are not able to deliver this CPs, then it can go down to Rs.4000 Crores. But we are confident that in JSPL we could do that.

Bhavin Chheda: My question was even if the conditions are met, but not to the satisfaction as per the agreement or whatever the return?

Ravi Uppal: We will see that. As of now we are not thinking of any compromise solutions. Let us leave it here at this moment, and we will see as things progress.

Bhavin Chheda: No sir my question was because there is a difference of 50% in the value. So my question is very simple. The EV of the deal can be Rs.6500 Crores, Rs.4000 Crores or it can be a third number also. I will value the EV of JSW Energy and JSPL based on the value of the asset, right, so if I am voting shareholder I should know?

Ravi Uppal: I cannot give you categorical answer, maybe there will be, and there can be. We will see about that, but as of this moment if you start putting a number on that, how much it will be, Rs.5500 Crores, Rs.6000, I am afraid I cannot give you any guidance on that.

Bhavin Chheda: The second question is Sir this quarter also if I see the steel blended realization, it has gone down on a quarter-on-quarter basis and there has been a sharp rise in steel prices. So the current steel price run rate, how much we should expect it more than what has been the blended steel realization in the quarter?

Ravi Uppal: I hope I have understood you properly. The NSR that we have in quarter four is superior to the NSR we had in quarter three. It has increased. And it continues to improve now. So the journey is still continuing. So we do feel that the net sales realization in the week and months to follow will improve.

Bhavin Chheda: But do you want to put the number, how much?

Ravi Uppal: No, that will speculative. I cannot give you an answer on that. It will mislead you.

Moderator: Thank you. The next question is from the line of Bhavin Vithlani from Axis Capital. Please go ahead.

Bhavin Vithlani: Sir, what stage are the litigation for the Tara and the other coal blocks?

Ravi Uppal: Sorry, come again.

Bhavin Vithlani: If you could guide us where is the litigation process on the coalmines?

Ravi Uppal: Well, all the hearings were over about eight months ago, in August of 2015 our hearings got over and the judgment was reserved. But the judgment has not been announced yet, we are waiting for that to happen.

Bhavin Vithlani: Is there a timeline in which the judgments have to be given or it can be indefinitely postponed?

Ravi Uppal: Well, I don't know. I do not know. I cannot answer. We do not have a mechanism in India, whereby we can go and sort of ask for judgment to be read out by force. We are waiting as much anybody else, not only our judgment. There are many other judgments, which are still awaited.

Bhavin Vithlani: My last question is what were the merchant realizations for the year as a whole?

Ravi Uppal: I am afraid I do not have that number to give you as an average over the year. We can give you that information separately, if you do not mind.

Moderator: Thank you. The next question is from the line of Ashish Jain from Morgan Stanley. Please go ahead.

Girish Achhipalia: This is Girish here. Just a quick question on Tamnar-1. If we look at your Q2 presentation, you had a medium term PPA, which was ending in August, 31, 2017 for 200 megawatt from Tamnar-1. This was with Tamil Nadu. And if we look at your current presentation, obviously, there is no PPA there for Tamnar-1. So just want to understand what's happened with that PPA?

Ravi Uppal: Let me clarify it to you. We have that 200-megawatt, you rightly said, we have the PPA for 200-megawatt up to October 2017 and because the line actually had expired in the month of December, so we could not supply this. But they have come back. They have already started lifting from us 60 megawatt from January and it is being increased. I am hopeful that by June and July these numbers will go up still further, and I am hoping that by September or so we will be able to supply full 200 megawatt again to Tamil Nadu. They want this power.

Girish Achhipalia: And this will be from Tamnar-1?

Ravi Uppal: Tamnar-1.

Girish Achhipalia: Thanks.

Moderator: Thank you. The next question is from the line of Ritesh Shah. Please go ahead.

Ritesh Shah: Just to take up the previous question a little further. You did indicate a capex guidance of Rs.2000 Crores. Is it only for steel operations or is it at a company level that we are looking at? And secondly, do you have any balance sheet ratios in mind that something that will not go above?

K. Rajagopal: The capex which I have indicated is Company overall, because as Mr. Uppal said, we are not starting any new project and only thing which we have to close is our balance at Angul. So that is what it is and we do not have any other projects starting up. So that is on the capex. And then you had a second question on the ratios.

Ritesh Shah: Gearing our net debt to EBITDA that we are looking at?

K. Rajagopal: Net debt/EBITDA end of March is about 9 to 10. But our plan is that we should bring down to 6 by end of next financial year and that is on net debt to EBITDA. Do you have any other ratios in mind?

Ritesh Shah: Second question is, if you could provide some color on the incremental PPA pipeline and how do we see fuel security for both Tamnar-I and Tamnar-II and specifically, in light of the recent deal, how would we approach it?

Ravi Uppal: Well, let me try to answer this. We have the PPAs for our EUP-2, where we have Tamil Nadu 400 megawatt, we have our 365 megawatt from Kerala, we have about 100 megawatt, which is from Industrial state, then we have about 60 megawatt to Chhattisgarh government and there some more in the pipeline and we basically are trying to see that EUP-2 where we have only 300-megawatt left that we fill it up completely. There are few tenders, which will be decided hopefully next month. And if that comes through, then EUP-2 is fully loaded and we are also focusing a lot on bilateral supply agreements, which could be in the range of 20 megawatt to 40 megawatt, where we can supply the power. These are to fill up more and more PPA. But after UDAY comes into effect, what we have been given to understand, there will be lot of inquiries for PPAs for medium and long term. If that happens, I think our capacity will get filled up in no time. We are just hoping for that. But I want to caution you that JSPL never acts in hurry on any matter. We think through very calculating, we don't want to take a decision where we would regret anything, and that is precisely what we did when it came to bidding for coal blocks. We never followed a rat race and quoted crazy prices. If we get it on our terms, fine. If we do not, we will leave it, because business is a long-term proposition. So, the management of JSPL is very conservative, they will never commit themselves to any investment, which could be a matter of regret for us at a later date.

Ritesh Shah: Sir, last question on fuel security, incrementally anything that you are hearing on linkage auctions or anything that you would?

K. Rajagopal: Yes, this is a good thing you ask, I can clarify that the Government of India has now decided that they will pass on separate coal blocks and linkages to the states and the states when they buy the power, those who were successful bidders, they will be given the coal linkage to produce power that they are going to supply. So we are hopeful that in states like Chhattisgarh, Odisha, or Jharkhand where we have a huge presence and where the government will be inviting tenders, we should be able to secure competition, coal linkage for ourselves, because we are very competitive when it comes to the cost of conversion, we have won the jobs in the past, whether it is Tamil Nadu or Kerala, and I am pretty confident that it should be in our reach.

Ritesh Shah: Thank you so much for answering the questions.

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

Amit Dixit: Just a couple of questions from my side. One is I just wanted to know your opinion on the continuance of protectionist measures, such as MIP, because already we have seen the price rising up to MIP level, so we were just thinking what lies ahead. And the second question is if you can guide the revenue number for Shadeed Plant?

Ravi Uppal: Answering the first one, MIP, MIP is as of now valid up to July 7. And the government is pretty clear. They think that it has done a lot good to the industry, having MIP there and so either they will retain MIP as such, or they will replace it by anti-dumping duties. And because they know the international prices right now are more than the MIP levels, but they do not want to take chance. They would like the Indian Steel Industry to remain healthy. So I think they will build up some security mechanism. As for Oman is concerned, I told you that we had a DRI plant, Now we have a steel plant of 2 million tonne. So even last year Oman plant had a quantum jump in their production. And this year I reckon Oman will try to reach full capacity, because as of now the demand is very good and they are doing well.

Amit Dixit: Thank you Sir.

Moderator: Thank you. The next question is from the line of William from UBS. Please go ahead.

William Vanderpump: Just following up on your balance sheet commentary and six times net debt to EBITDA by the end of FY2017, is that coming from a reduction in the Rs.46000 Crores of net debt? What assumption have you made to give us that number please, because obviously if that number stays stable, your EBITDA will have to double? So perhaps you could help me with that please.

Ravi Uppal: Mr. Rajagopal, can you kindly answer this?

K. Rajagopal: Can you repeat your question? I am not clear with your question?

William Vanderpump: You said net debt to EBITDA between 9 and 10 times at the end of FY2016. That should fall to six times by the end of FY2017. What net debt assumptions are you making to give us that guidance please?

K. Rajagopal: See the net debt EBITDA is also on the basis of our EBITDA level we are going to have in next year. So because this year our EBITDA is you can see that it is at a level of some Rs.3000 Crores plus and next year we have a target, considering the cash flows and the repayments and debt level. So I do not want to give the number for guidance for EBITDA or debt level, but as I told you, the net debt, because if you see on a standalone basis we are on 9 times. On a consolidated basis it is about 11 times to 12 times and then maybe, as I said, we target that standalone basis to come to about 6 times, 5 times to 6 times. And then consolidated, this may come around between 5.5 times to 6.5 times. So that's why I said about 6 times.

As I said, our targets are on the basis of the EBITDA, which we are going to achieve, and also the net debt level, which we will achieve, because we have no big capex and some additional funding will come from additional capex, but there will be some repayments as well. And earlier, in the call also we said we have in addition to the operational cash flow, so we also said we will raise on the basis of divestments, not only the business power assets which is what we are doing, also some of the non-core assets as well. And we are also in discussion with some of the different where we have possibilities of joint ventures. So all this considering; that is the additional cash which will come, operational and any expense, which we have to make on the capex, altogether, with the EBITDA, which we target. So that is the guidance I gave. It we will be around 5.5 times to 6.5 times.

William Vanderpump: Have you made any assumptions about asset sales in FY2017 to get to that figure?

K. Rajagopal: Yes, that is right. We already said that we have a plan for power asset sale and the entire non-core asset sale. So that is what we said in the previous concall.

William Vanderpump: And can you give a figure for that assumption?

K. Rajagopal: I do not want to give a number in this kind of guidance. It is fact.

William Vanderpump: Thank you very much.

Moderator: Thank you. The next question is from the line of Sumangal Nevatia from Macquarie. Please go ahead.

Sumangal Niveta: Just one follow-up question. Sir, on the coal supply to Tamnar Power Plant, assuming we do not get access to nearby coal blocks and remain dependent on auction, is there a plan to augment the inward freight capacity by putting a railway line or anything any other plan to address the logistic bottleneck there?

Ravi Uppal: Your question is very hypothetical, because we are sitting right in the middle of all the mines, Kulda Mine, the Barod Mines, Vasundhara mines, there are mines all around. Nearly 40% of India's coal is produced there. So, therefore, the question does not arise they will not mine it. South Eastern Coalfields, SECL, NCL, they are all there, because of this area is at the border between Odisha and Chattisgarh and it is a coal bearing area. So unless they want to really stop the coal production of this country, which is against what the Power Minister is saying, he wants to take the production to 1 billion tonne, compared 558 million tonne that we are doing this year. So I think our main advantage as a company is, we are right in the middle of coal bearing area and either we can bring with a pipe conveyor or alternatively we can bring using trucks and other such vehicles. So we are able to do it. If we have a regular supply from a mine, we use pipe conveyors. If it's changing from place to place then we use the big trucks.

Sumangal Niveta: But is the road capacity enough to bring close to 14 million tonnes, 15 million tonnes of coal annually to run?

K. Rajagopal: As I told you, two units of 600 megawatts have a coal linkage. So we get about 4.8 million tonne out of that, okay, 5 million tonne. And the rest of them, 8 million tonnes, and 9 million tonnes are something depends on which mine we get, if we get Tara Mine, or Gare Palma 2 and 3, so then we have no issue. But what we are doing is just as you know, JSPL has perfected the technology of pipe conveyors and even for MCL coal under linkage steel EUP-2, we have the plan to set up a pipe conveyor to bring the coal, very quiet, very clean, without spilling, without noise. We have perfected the technology of pipe conveyors.

Sumangal Niveta: Thank you Sir.

Moderator: Thank you. The next question is from the line of Dhaval Doshi from Phillip Capital. Please go ahead.

Dhaval Doshi: There are certain news articles, which says, that we are also considering selling some stake in our steel assets, if you could just throw some light?

Ravi Uppal: No, no, it is a wrong interpretation. What we said was within the space of steel plant we have different assets, some of them core, some of them peripheral assets, which we used to buy our own we used to source our own input with services or materials. We have said those which are on the fringe and not a part of the core process, those assets we need not own. So, therefore, as a part of Company's strategy to go asset-light, we are trying to identify certain assets, which we need not own up, so we can sell it to their OEMs, people for whom it's a main business. So that is what it is all about. But you can't be selling a blast furnace, or a filter plant they are a core part of the process.

Dhawal Doshi: So, say something like a rail mill, we are open to selling some stake in that?

Ravi Uppal: We are looking at various things where we could go to joint venture with someone who has international proven competence, in which they can bring to us some access to new markets and new technologies, where we have a distinct benefit for us, very much driven by how it will benefit JSPL.

Dhawal Doshi: So these assets, can it be a substantial chunk, as far as the overall divestment plan is concerned?

Ravi Uppal: No. As I said, these are assets, peripheral assets, which are non-core assets, and we can do without their ownership. Look at many companies today. For example, even if you look at Airtel, they never own the processors, servers, they never owned it, they are owned by either IBM or someone else but they owned the customers. They owned other thing, billing, etc. So, you know there are many companies today, are going for asset-light model and I think we are also seriously looking at that.

Moderator: Thank you. We will take the last question from the line of Rakesh Vyas from HDFC Mutual Fund. Please go ahead.

Rakesh Vyas: Two questions from my side. First one on the deal that we have announced. So when should we ideally expect the proceeds from the deal to flow into the Company? And related to that is, why is there is no breakup fees in the deal structure itself? And my second question is, when I look at the JPL Power business, I could still see that the fuel cost, which is interpreted based on what numbers you have provided, seems to be very high despite we getting incremental coal linkage based on the EPA that we are supplying?

Ravi Uppal: Well, answering your first question, the structure of the deal is broadly Rs.6500 Crores into two parts. We will get the Rs.500 Crores once the initial formalities are done. And the balance Rs.6000 Crores as soon we will fulfill the CPs. We are pretty hopeful that we should be able to compress the fulfillment of that CPs, although we have taken much more time. And basically, once the CPs are fulfilled, we will get rest of the money paid by the buyer and that will come into the Company in the form of equity. So that is what it is.

Rakesh Vyas: No breakup fees, any specific reason?

Ravi Uppal: Mr. Rajagopal, you would know that?

K. Rajagopal: The deal is structured in such a way that the valuation is Rs.6500 Crores, if we do the two conditions fulfilled, and otherwise it is Rs.4000 Crores. So I do not know why you want to get into that detail. There are so many other process and so why we are discussing about the breakup fee so specifically. So that is the deal. I think we have to stay with that.

Rakesh Vyas: The fuel cost in the power business continues to remain high, despite yields and prices being lower, we getting incremental linkage also. So can you just throw some light on that?

K. Rajagopal: I think it is not very audible, can you repeat again?

Rakesh Vyas: Sir, I am saying that based on the JPL financials that you have provided, it still seems that the fuel cost per kilowatt hour is still very high despite e-auction prices being low during last six months or so and we are getting incremental linkage supplies also, based on the PPA that we are supplying to Tamil Nadu. So this cost is very high, is it based on the earlier inventory, if you can just highlight whether this cost will come down?

Ravi Uppal: Where did you see this cost, which you are quoting right now?

Rakesh Vyas: I am just looking at the difference between the realization and the EBITDA that you generate in JPL.

Ravi Uppal: My dear friend that is not only fuel cost, it also has the cost of the oil, the space.

Rakesh Vyas: But when I look at QoQ, it does not change much.

K. Rajagopal: I think our Investor Relations team, Nishant, he can provide, the detail he can provide.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor over to Mr. Ritesh Shah for his closing comments.

Ritesh Shah: Thanks. Mr. Uppal, any concluding remarks from your end, would be grateful.

Ravi Uppal: No, I have already said a lot in my opening comments. I just want to tell our friends in the investing community that JSPL's fundamentals are basically very strong. It has a very strong internal management. It has weathered many storms. Do not get carried away by small news clips here and there and try to make judgments about the Company. If your Company can come back with 59% improvement on EBITDA in just one quarter, even after half way through the quarter, the prices have started to change. You should really have faith in the intrinsic capability of JSPL.

You must remember that we have some exceptional assets with us. We are the only company in the country, which is capable of producing heavy structured mill, merchant mill. And the kind of structures we do nobody can do. We are the only company that can produce head-hardened rails and 260-meter long rails. We are the only company, which has a high-speed medium light structure mill. And we have an exceptional plant in the Arabian Peninsula at the gateway in Oman, which is one of our jewels in the crown. And there are so many, we have our own machinery division. We own country's largest fabrication shop, 20000 tonnes per month and the one who is second he has 3000 tonnes. So, we can literally dominate the complete fabrication space in this country. Any bridges, any buildings, any power plants, all of them have to buy structures from JSPL.

So, I think we have some many exceptional assets, kindly have faith in the Company. Every day I find that a small news clip here and there gives me a feeling that our investors have their confidence shaken. Do not do that. That is my great one-dollar advice to all of you. And I will request my colleague Mr. Rajagopal also to say some comments, departing comments.

K. Rajagopal: I think mostly you have said. The main important message is, all our production facilities are stable and we have increased capacity. The only issue last year was the reduction in sales prices, which globally the price levels are stabilizing and improving. And I think with this we are well positioned to take advantage and stabilize in our financial overall balance sheet. And, also the additional capacity, which we will bring in, which, we already brought in Oman and additional capacity we bring in Angul will further improve our strength. And so, we have a very good plan to improve our financial stability and to come back to their financial health. So that is the assurance, which we want to give from the management. With this call, I would like to thank all the people who joined in this call and thanks for all the support.

Moderator: Thank you members of the management team. Ladies and gentlemen, on behalf of Investec, that concludes this conference. Thank you for joining us. You may now disconnect your lines.