

## Transcript

### Conference Call of Jindal Steel and Power Limited

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#### *Presentation Session*

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**Moderator:** Ladies and gentlemen good day and welcome to the Jindal Steel and Power Limited, 4QFY2017 conference call hosted by Antique Stock Broking. As a reminder all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Please note this conference is being recorded. I now would like to hand over the conference to Mr. Pallav Agarwal from Antique Stock Broking. Thank you and over to you sir.

**Pallav Agarwal:** Thank you and good morning everyone. On behalf of Antique Stock Broking I welcome all of you on this call. Today we have with us the senior management of JSPL to discuss the quarterly results and the key developments. I would like to hand over the call to Mr. Nishant, Head of Investor Relations. He will introduce the management and then we will have the management's commentary. Over to you Nishant.

**Nishant:** Thanks Pallav. A very good morning to all of you and I welcome you on the call. Today, we have with us our MD and Group CEO Mr. Ravi Uppal and our CFO Mr. Rajesh Bhatia. I will now hand over the call to Mr. Uppal for his opening remarks. Thank you.

**Ravi Uppal:** Thank you Nishant. A very good morning ladies and gentlemen and welcome to this investor's conference this morning. It is my great pleasure to speak to you amidst of the Q4 results and also the results of the financial year '16-'17. I am very happy to say that Q4 results represent the best quarter results of JSPL for the financial year 2016-17. What has really been significant is that this quarter once again reinforces the recovery of JSPL as far as the performance is concerned. If you recall the last time I spoke to you, we said that the JSPL recovery has started. Q4 basically reconfirms that JSPL is really on the way to full recovery. Our performance in Q4 has basically maintained the momentum of recovery that was started in the third quarter. In the fourth quarter the total turnover that we achieved for JSPL consolidated is by far the highest in any quarter and also for the year as a whole the turnover of Rs. 22,696 crores is the highest turnover that we achieved in JSPL's history.

You have seen the numbers in terms of EBITDA performance, the cash flow, PBT and PAT. You would have noticed that in every parameter we have made a significant improvement compared to the same quarter last year or the year as a whole. What I specifically want to highlight to you in my comments is the contribution to the total performance of JSPL which has happened is not only confined to any particular business segment but the improvement has been all around whether it was our standalone business, power business, or global ventures. Each one of them has made a significant improvement in the fourth quarter.

Let me start by talking about power. In power you have seen that despite of a low PLF which is nearly one third, to be very precise about 35%, we have made a very good EBITDA achievement. This is basically thanks to the fact we did very selective power sales unlike the previous quarters. A lot of sale has been made apart from the PPA's on the exchange. There we were selling power only when the rates were good and that helped us to realize better average rate as well as the power sale. We have put in a lot of effort towards operational efficiency. We managed to navigate our fuel cost in a good way. We controlled our operational cost, the man power cost, sales and administration costs. All these things put together helped us to achieve a better EBITDA figure.

Likewise on the steel side, our Oman Unit has made a wonderful contribution. The EBITDA for the fourth quarter went up by 90%. The total sales also went up by 25%. On the home pitch, when it comes to the pellets, they made a very significant contribution. The total production of these pellets went up from 4.5 million tons to 6.5 million tons which is nearly a 46% increase in the volume of pellets produced. We've also exported a lot of pellets. JSPL right now is the largest exporter of pellets in India. Our total pellets exported were about 2.33 million tons and the total exports, pellets and steel put together rose by 340% during the year. Our total export realization was about Rs. 3,138 crores, compared to Rs. 700 crores last year. It is not only the pellet exports which suggested an impressive increase, but our steel exports also improved dramatically. Our steel exports in value terms went up by nearly 175% and we made foray into various markets including Europe, Middle-East, Mexico and Canada. Pellets were also exported right across the globe from China to Egypt to Turkey. So our footprint in exports is increasing. We've built up a very good position which will act as a spring board for exports for the year to come. We also are in the process of setting up a European office to give further boost to our steel exports, to Europe and other neighboring countries.

When it came to the consolidated performance; there again our total EBITDA on a Y-o-Y basis went up to nearly 73% and if you recall the last best quarter we had was the second quarter of 2014. Thereafter we've had lot of adverse factors caused by external conditions which had forced the company to reduce its production and the EBITDA suffered. Since then we've made a big recovery, starting from Q3 and I am quite hopeful going forward, this performance will maintain itself and I do look forward to FY18 as a year for complete turnaround for JSPL. Hopefully it will bring you good sort of positive numbers. Last year we delivered about 4.7 million tons on sale of steel on a consolidated basis but going forward in India alone we are hoping to increase our steel sale by nearly 50% with the commissioning of the Angul steel plant. I am very happy to share with you that our commissioning of Angul steel plant is absolutely on track. We already have commissioned the country's largest sinter plant with a capacity of 5 million tons. We have commissioned two batteries of coke oven and I hope that very shortly we will be giving you news about the commissioning of the blast furnace.

So we have Angul sort of coming on stream; it is going to be an orbital jump for JSPL as steel production in India is concerned. Our capacity by the end of 2017-'18 will be in the range of 7.5 million tons. Angul will contribute to a capacity of about 4 million tons by the end of the year and we have 3.5 million tons in Raigarh; so that adds to about 7.5 million tons. In addition to this we have 2 million tons in Oman. Total capacity will be in the range of about 9.5 million tons. Everything has worked out very well with clockwork accuracy as far as the commissioning of JSPL's big plant is concerned in Angul and I am sure that this will help us to post an impressive increase in steel production in the FY18.

As far as the power is concerned, we are continuing to see how we can go for better utilization of our capacity. We only have seen some positive impact of that in the month of April and May. We are not only depending on PPA's, but we are also looking for bilateral sales and also larger selective sales when it comes to selling on the exchange. It would be no effort to see that we go for substantial improvement in the capacity utilization of our power plant. Our pellet manufacturing capacity is about 9 billion tons; we are taking some steps to see how this capacity can be improved further. But we certainly will try to go for higher production of pellets compared to 6.5 million tons that we did last year. When it comes to Oman we had commissioned our new rebar mill last year whose capacity utilization is gradually going up. We are now at a level of about 65% to 70%. We definitely want to sort of go for higher utilization of our Oman plant in FY18.

I am very happy to inform you that we have already taken number one position when it comes to the rebar market in Oman. Apparently we've also built up strong position in the neighboring countries like UAE, Kuwait, Qatar, and parts of Saudi Arabia bordering with Oman. There has been very good response to our Oman products in the Arabian Peninsula and I am quite sure that in the months to come our capacity utilization will move towards 80% to 85% and we will get a positive response from our markets. When it comes to Mozambique & Australia, the two sites where we are producing coking coal of different grades; our prime focus is to ramp up the volume. We started the mining in these two countries from August last year when the coking coal prices started to improve and as of now we are mining about 125000 to 130000 tons per month in Mozambique, we will do about 80000 tons a month in Australia. We are making efforts to see that we develop our production capacity in Mozambique. In Australia similar effort is underway. We are mining at the moment in one mine and we have applied with the local authorities to give us license for mining in the second one. I am hoping before the end of the next financial year, we will also be able to start, mining in the second mine. So there again the focus is same as Mozambique. Ramp up the volume. For both these mines in Mozambique and Australia, we have our own captive requirements of coking coal although we do make sales to external parties also. But as of now our own demand can fully meet the production out of these two mines; so '17-'18 I do look forward to see even better performance in both these mines in financial terms.

As far as steel is concerned, I always mentioned to you, that the year '17-'18 will be a defining year as we get a ticket to operating our newly built up capacity. JSPL will continue to focus on exports. We have a very selective approach for exports. What we sell and who we sell to. We are not in the commercial grades of steel; we are focusing more on the value added steel where realization is better as competition is not as intense as it is in the commercial grades of steel which is produced. And we are taking advantage of the fact that the markets in Europe are open to India. We have had a good measure of success there and we think that we should be able to have a quantum jump in our exports to this market.

The recently announced policy by the government especially in the power and steel industry are said to help JSPL as the rest of the industry will also benefit from it. Government has recently announced this policy of Shakti which basically provides the coal linkages to the companies which have built up capacity and either have PPAs or don't have PPAs. The government is proposing to give the coal linkages to both of them. So as soon as this policy comes into operation, we will make efforts to see that

we secure the coal linkages for the balance capacity of the power plant. We have already taken this initiative for our captive power units where we have nearly 50% of the coal today coming through linkages. Similar effort would be made to capture coal linkage for the 3400 MW thermal power plant. We already have coal linkage for 1200 MW capacity out of this 3400 MW. So we will be making efforts to secure coal for the remaining 2200 MW capacity.

As far as the steel is concerned, the government has announced their national steel policy which I think is a very positive step. The present government has been very proactive in matters of supporting the domestic steel industry. Earlier they had introduced measures like MIP and anti dumping. India now ranks No.2 when it comes to total installed capacity on a global basis next to China. It just very recently pipped Japan to become a company with the second largest capacity very soon in terms of production also India will rank two. I think the new National Steel Policy envisages that we should reach a level of 300 million ton capacity by the year 2030 compared to where we are today which is only 122 million tons. This is basically on the premise that local consumption will increase from the present level of 64 kgs to about 180 kgs by the year 2030. Last year the local market grew only by 3.5% and the next year it is expected that the steel market will go to 6% and the year after 7%. I fully subscribe that these demands will come through given the fact that government has earmarked huge investments in the infrastructure segments where steel consumption is quite predominant and government is also taking measures to increase the steel intensity of the infrastructure segment.

All these measures together will give an impetus to the growth of demand from domestic market in addition to the continued focus by the primary steel manufacturing units. All export will spur the total demand for the domestic steel industry and of course the total imports into the country are being watched by the government and they are trying to ensure that the domestic industry is not put to any disadvantage. So higher exports, more domestic consumption, and curtailed imports will add together to see that the domestic industry remains healthy, their capacity utilization improves. Things like quality onus etc. will also make sure that we don't have reckless dumping into the market from imports and the overall performance of the Indian steel industry improves. So steel industry has a very positive outlook and it comes at a time when we are adding capacity ourselves so we are very happy. I think our bringing a new capacity on stream is well synchronized with the measures taken by the Government to stimulate the growth of steel in the domestic market.

So steel, mines and minerals, and power all put together have a positive outlook. We think that FY18 is going to be a defining year for JSPL. I want to thank all our investors for reposing confidence at JSPL. We have been through the rough but we have been tough. We have been resilient. We have shown that this company has a capacity to take any kind of temporary setbacks and shocks and we have come out stronger. I am very happy to tell you that your company has invested huge effort during the difficult years to improve upon its operational performance and this has been a blessing in disguise. We have been able to substantially reduce all our peripheral costs which are essential for the business but which needs to be managed; we have focused on them and got them under control. I also would like to mention that since we looked very closely on our working capital; we have been able to reduce the working capital quite impressively during the last two years by more than 3000 crores out of which about 1300 crores has been reduced in the last financial year. The capital efficiency has improved

in the company. You might have seen that our PBT figures have improved significantly, high double digit improvement on a Q-o-Q basis, also for the P&L things have improved although we still remain marginally negative. You have to keep in mind that your company has invested huge amount of money in the years between FY13-FY16 to increasing its capacity.

We will be able to harvest the results of our efforts and investments made in the past, but for the time being they are getting reflected into the performance as higher interest cost and higher depreciation. So that's the only reason why you see PBT and PAT numbers in small negatives but I am absolutely confident that going forward, as we utilize our capacity more, we will turnout very positive with very promising numbers. If we look at our EBITDA numbers, I am sure that you would draw satisfaction out of the fact on a consolidated basis, our EBITDA was 23% for Q4 and on a standalone basis, it was 20%. So these are among the best in the industry and going forward we will only improve on them. So I finally would like to thank you once again for staying invested with JSPL and reposing your confidence and I am sure with you good wishes, this company will continue to march and we will occupy the same old position that we used to do before 2014 and will remain the benchmark of the performance in the steel and power producing companies. Thank you. Now I will request our CFO, Mr. Rajesh Bhatia to also make his comments on the Q4 results.

**Rajesh Bhatia:** Thank you sir. A very comprehensive expression by you spanning across all the businesses in India as well as overseas; I would like to fill in a few things that you might have missed. If you see, the couple of things I would like to put forward are that it is the highest ever steel production by us in India on a standalone basis as well as on a consolidated basis, so it is a true reflection of our focus on capacity utilization. In each and every plant, you will find whether it is steel production or the iron ore, the power production or some of the mills like wind mills, or blades, there is a dramatic improvement in the current year across all the businesses. On a standalone basis, we produced about 3.5 million tons of steel in FY17 which is the highest ever. On a consolidated basis we produced 4.8 million tons of steel in FY17 which is the highest ever. We had the highest ever pellet production and the dispatches of about 6.5 million tons. We also had the highest ever production of plates for about a million ton. And the rail of course continues to do well and we have the highest ever production from the rail mill also. Now with the numbers ramping up, the defining thing is the commissioning of Angul which we expect will give us additional 2 to 2.5 million tons volume for the current year and that will set the tone for higher profitability both on EBITDA as well as PBT and PAT this year. What is notable is that this Angul, 3 million ton capacity has been without actually adding any debt on the balance sheet. It is only through more effective cash flow management, the working capital both on raw materials as well as on the finished goods and I can tell you that we have today the lowest inventory ever of finished goods which is less than 7 days of our production. So there has been a lot of efficiency in cost management and working cash flow management. We have also now been getting support from all the banks who have been looking that JSPL has turned around in the last quarter and this quarter, re-affirms their faith that last quarter was not just attrition, it is on a continuous journey to perform better and better and as we grow more in volumes, I think we will have better numbers to share with you in the quarters coming by.

In power business again you find the numbers are much better because not only were we very selective in terms of what time of the day we sell on the exchange but also the price we get from the PPAs. In the coming year we have more PPAs coming in and in

October we have the Kerala PPA of 200 MW kicking in. I think power has performed really well. We've been able to manage the cost size of the power business. The coal costs have come down by 15% to 16% through better quality of the coal that we are getting from these mines. Coal India also has helped. I think going forward in FY18, you will find a different JSPL than what you see today. As we produce and show results, I am sure the confidence of the investors will increase. In the last year, this was very tough. Our competitors JSW and TATA steel have shown us how to ramp up volumes and generate more profits and EBITDA and we have that hopefully delivered to you in the current year.

**Ravi Uppal:** Thank you Rajesh. Ladies and gentlemen, we have with us our head of steel business, which is also driving the operational excellence in the company. There are a lot of good things they have achieved in operation excellence. He happens to be here and I am going to request him to give a brief comment about the performance.

**Pravin Purang:** Thank you Uppal ji and good morning everybody. I think very comprehensively Mr. Uppal and Mr. Bhatia has covered the various aspects which will be useful for all of us to understand how JSPL has performed last year and how it is on the anvil for a major take off in the coming year. I would only reiterate a couple of points into that that the last year that we have had such a massive improvement and a success is primarily by improving the operational excellence and efficiency of the whole system. We have worked on systems improvement, we have worked on working capital reduction, capital efficiency improvement and the inventory levels have been brought down to a level which Mr. Bhatia shared, about 7 days which is probably a benchmark in the industry. We have also brought in the concept of just in time inventories here. Like in an auto industry it used to be. So in the steel industry we have tried to bring in a lot of innovative concepts in terms of systems uniformity as well as new systems to be done. We have focused on cost reduction so that we are able to bring down the cost and therefore improve the contribution of the EBITDA. I am happy to share with you that EBITDA per ton which is the efficiency of the organization has improved a lot. It has gone to about Rs.10,000 per ton. With the volume going up and maintaining this efficiency, we will be one of the best EBITDA earners in the country in the steel industry. So the whole focus before doubling the capacity has been to tighten our belts, bring the efficiency into the system, and this efficiency will carry on. So there will be a very efficient system to perform as well as double capacity available with us and the combination of that is really going to give us the boom that we are looking at. We are also changing our product portfolio mix in a certain manner so that we can optimize the total EBITDA. High contribution products will be given more focus in terms of manufacture, in terms of sales etc. We also have a flexible system into the whole aim. We have software where we are optimizing our EBITDA between the various products and depending upon even the....during the month looking at the EBITDA as the market is moving, we are able to change our product mix as well as the production systems. So we have brought in lot of such efficiencies. Another area where we have looked at is, supply chain management and we have much, much more robust, supply chain management now with securitization of all our raw material because when the volume goes up, your raw material requirement will double up and that is the time we need efficiency so that the hidden cost in the whole system can be removed from the organization which will help us in earning our entire contribution and EBITDA and we will be operating at a much higher efficiency and much higher capacity. So thank you very much and we look forward to a new year.

**Nishant:** We will take the questions now.

**Question and Answer Session**

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**Moderator:** Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have any questions, please press \* and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing \* and 1 again.

Sir, the first question comes from Mr. Ritesh Shah from Investec Capital. Please go ahead.

**Ritesh Shah:** Congratulations for a good set of numbers. Sir my first question is pertaining to the UP bids. How should one look at it and specifically what should be the read across for the JSPL transfer of 1000 megawatts to JSW Energy and what is the quantum of proceeds that one can bid in?

**Ravi Uppal:** Well we have this agreement with JSW under which we will transfer the 1000 megawatt order total capacity to JSW. But the date for the closing of this agreement happens to be June 2018, so the agreement is still on the track. Let's see how things work out in 15 months' time.

**Ritesh Shah:** Sir any update on the UP bids 325 megawatts that we discussed in the last concall?

**Ravi Uppal:** Yes, the UP government has annulled that tender that they had taken out because the new government wants to source the power in a different way. It is of course unfortunate that they ended the agreement, but never mind, we have other avenues. As I mentioned to you, we are trying to replace it while we are going for bilateral agreements with the major consumers of power and we are also doing more selective sale to the National Exchange.

**Ritesh Shah:** Sir just a follow up. What is the range of proceeds that we can expect from this transfer, is it like 4500 crores to 5200 crores based on the PPA? What is the number to it sir?

**Ravi Uppal:** Well there are certain conditions into the agreement depending on how much those conditions are fulfilled, the consideration will be decided.

**Ritesh Shah:** Okay that helps. Sir, my second question is, there has been a reversal of 253 crores on the Australian assets, specifically would like to understand what are the assumptions which have gone behind that given that the coking coal prices have again come down to \$165-\$170.

**Ravi Uppal:** Well first increase took place in August last year which peaked up in the month of November and thereafter the coking coal prices have started to soften. There are several factors which influence the price of coking coal. Number one, what is the kind of demand in the market and second is how much of supply exists. In the first case the demand had plucked up which led to the increase of coking coal price all the way to 320 dollars. Later on when the production started improving, started catching with demand, the prices softened to the level of about \$160-\$170 but then you had the big

cyclone in Australia in the month of March which disrupted the supply of coking coal and there was a shortage of coking coal and the prices again went up to the level of close to 300 and again they started to soften now. So this roller coaster kind of thing is there based on demand and supply. I think this is the fact of life and we simply have to live with that. But I do feel that in 2018, save any kind of catastrophe which nobody can foresee, the prices are expected to be more stable.

**Ritesh Shah:** Okay and sir last question from my side, if I may squeeze it in; sir if one looks at the balance sheet, there has been a working capital increase at a standalone level and a release at a consolidated level, could you please explain how we have the working capital release at a consolidated level when we have increase at a standalone level, if you could please help us understand this gap?

**Rajesh Bhatia:** I think on an overall basis there has been a reduction only. Probably I'll take it offline, I will speak with you or Nishant to clarify this. Both ways it is down.

**Moderator:** Thank you sir, we have the next question from Rajesh Lachhani from HSBC. Please go ahead.

**Rajesh Lachhani:** Thanks for the opportunity sir. My question was regarding the last time we visited the Angul plant, you were expecting the plant to get commissioned end March or early April. We have not yet seen the commissioning of Angul so just wanted to know the reasons for the delay and what are the steps we are taking to mitigate further delays?

**Ravi Uppal:** Let me give you an update. There are several plants which go into an integrated steel plant which you commission stage by stage. We have already commissioned two batteries of coke oven, and the sinter plant, which is the largest in the country. I am happy to tell you that it is commissioned and operational. Next in line is basically the blast furnace, just a matter of next few days, before we give you the good news that the blast furnace is getting commissioned. When you talk of a project of such a huge scale, it is a cycle of commissioning. As a matter of fact, I could just say the plant is commissioned, but once we start getting it operational, we make it worthy for commercial operation. So this happens over a certain period of time. While the commissioning went on to start as we told you during the Angul visit end of March early April, now we are around 23<sup>rd</sup> of May. Most of the commissioning is over and very soon you will get the news about the plant being fully commissioned and operational for commercial production. So there are no reasons to harbor any anxieties, absolutely on track and when a plant of this size gets commissioned, there are always small teething issues initially. But the good news is there have been those sorts of unpleasant surprises and the commissioning has gone as scheduled.

**Rajesh Lachhani:** Okay sir. My second question is on the GST rates. The GST rate on coal has come down, so I believe it will benefit JSPL, however, due to anti-profiteering clause we are supposed to pass on any benefits. So can we see margins improving or you see margins remaining stable?

**Ravi Uppal:** Well there are two parts of it. If you take all the taxes together they add upto 11% and the GST proposed for coal is about 5%. So there is obviously reduction in that front to the tune of 6% but it depends on what kind of agreements we have. If we



have PPA, then obviously the impact of this should be passed on to the customer. Then there is power that we sell on a bilateral basis and on the exchange, there it is left to the competition as to what are the rates that are quoted when you sell the power, there will be an opportunity for us to improve the earnings, we will have to analyze it one by one, contract by contract.

**Rajesh Lachhani:** Okay sir. And sir my last question is again on the impact of GST on the steel sector. Do you see some disruption initially and this benefitting JSPL in particular over the long-run with lots of unorganized player in the long steel segment?

**Ravi Uppal:** When it comes to steel, the rate has been fixed at 18%. Our current taxes adding upto 17.5%, there is only a marginal increase. But apart from the quantitative part, the steel industry welcomes the introduction of GST because it provides a very simplified regime for the management of taxes because we are talking about single tax and the basket of taxes where we had to maintain individual books for each one of them, whether it was excise, sales tax etc. So I think huge mode of administrative simplification and tax management can also be simplified. So all total we are happy. There is no saving of tax for the steel industry per se and to the contrary it is slightly increased from 17.5 to 18.

**Nishant:** Can I request all of us to kindly limit ourselves to one question? There is a long list of questions and people asking them. So it will be great if we could just limit to one question per participant. Thank you and let's stick to strategic questions, we at the IR team are always there to help you with the data ones. Thank you.

**Moderator:** Thank you sir, we have the next question from Chintan Mehta from Sunidhi Securities. Please go ahead.

**Chintan Mehta:** Hi sir, in segment reporting, in others we have 206 crores of EBIT vis-à-vis revenue of 279 crores, so is there any item we need to take care of in this sir?

**Ravi Uppal:** It is income from the subsidiaries which is posted here.

**Chintan Mehta:** Income from which subsidiary...is it dividend?

**Ravi Uppal:** It is not dividend, it is sales purchase agreement.

**Chintan Mehta:** Right. Thank you Sir.

**Moderator:** Thank you sir. We have the next question from Mr. Kamlesh Bagmar from Prabhudas. Please go ahead.

**Kamlesh Bagmar:** Thanks. Excellent set of numbers sir. Just one question, to Mr. Purang, on the part of your guidance for 2 million tons incremental volumes, overall on standalone operations and domestic operations; initially you are in this financial year. Our focus would be more on setting semi finished steel because that involves working capital. Can you break it up as to what quantum would be there with regards to the semi-finished steel and finished steel in case of Angul operations?

**Pravin Purang:** Yes I was sharing that we were moving towards very systematic operations and moving onto the smooth flow of the material so it is not going to be a

semi-finished steel in-between that we are going to stock. We actually have a complete line. In fact we many times have even hot-charging, the steel that comes out goes straight into the rolling mill and then the final finished product comes out. Only thing is the finished product could be different, depending upon the EBITDA per ton that we are trying to get. But the entire steel that we produce will be utilized in converting into the product immediately. There will be no hold up in-between because that will increase the cost, so the whole year we have been working, how to reduce the total variable cost by bringing this efficiency of movement and not losing the energy in the storage area.

**Ravi Uppal:** Let me also clarify to you that from Angul we are producing three lines of products when it comes to the final product. The first is high grade, high value added plates. Second is the TMT rebars, one of the country's largest rebar mill is set up in Angul. Third is billets and rounds. Now the billets which are produced here are fed into the local rebar mills and it will also cater to the requirement of Patratu which is producing wire rods and TMT rebars, so they will also get their end feed stock out of Angul. Every ton of product that is produced in Angul has its end use within the mills in Angul itself or mills of JSPL at other locations.

**Kamlesh Bagmar:** I just wanted to understand that since the finished product, a lot of inventory is involved and we are moving into more and more retail which could involve lot of working capital. Whether in the initial year, we would be more focused on the semi-finished or the finished part, because still we are sticking with the EBITDA per ton profile, despite the fact that we are moving to a much larger quantity, so we should not be more bothered about the EBITDA differential between the product and should be more aligned towards the higher share of finished products.

**Ravi Uppal:** One of our key objectives will remain in maximizing EBITDA. It is obviously quite clear that we will go for fully finished product. But sometimes we get into an opportunity where we also get very high value realization on the semi-finished products. For example if you take rounds which you may call semi-finished product because it is used for making the final products. JSPL is one of the few producers of rounds in the country and the rounds get sold at very high EBITDA level. So you will have to look at it on a case to case basis rather than have one approach. But you can be rest assured, we take the decisions with a view to maximize the EBITDA contribution to the company.

**Rajesh Bhatia:** Also the rebar is the most fast selling product and is a cash product. You collect cash and then deliver.

**Pravin Purang:** In fact just to add on, we looked at a totally new distribution mechanism and a channel movement into that with the whole objective that in our stock yards etc, the material will not be there, we will be looking into direct dispatches for the projects and even for retail the minimal inventory would be kept. This is what we were trying to say about working capital improvement and operational efficiency. With the volume going up we are not going to let go that.

**Kamlesh Bagmar:** Okay sir.

**Moderator:** Thank you sir. We have the next question from Atul Tiwari from Citi Group. Please go ahead.

**Atul Tiwari:** Thank you sir, and congratulations on a very strong set of numbers and turnaround in the company. It is quite heartening to see all this. Sir my question is on Jindal Power, just to check was there any kind of one off in the EBITDA number because the EBITDA was a little too high and above our expectations?

**Ravi Uppal:** 50 crores.

**Atul Tiwari:** Okay and what would it relate to?

**Ravi Uppal:** We have in our contract with Tamil Nadu, a clause which is called change of law. Change of law allows that if there is any news, registration or statutory, changes, for example we had the imposition of CESS on coal which is a statutory change. Our initial bid was based without CESS. Now the CESS got included and there is a case for additional compensation. We call this as a change of law base compensation which is admitted by the client as well as by CRC. We had this amount accumulated from the start to....now we are booking all these additional compensatory change of law on accrual basis, but we also had accumulated balance from start to end of December, and now it is all settled.

**Atul Tiwari:** Okay and sir you briefly explained about some scope for expansion of pellet capacity also. It will be really interesting to know how we can expand the capacities?

**Ravi Uppal:** JSPL keeps looking at its production processes to see how it can improve its yield. For the pellet plant in Barbil, we are making some technological changes whereby we will get a better yield on pellet production.

**Atul Tiwari:** Okay, thank you sir.

**Moderator:** Thank you sir, we have the next question from Amit Dixit from Edelweiss. Please go ahead.

**Amit Dixit:** Congratulations for a good set of numbers. Can you please walk us through the debt reduction? The debt has reduced substantially by almost 4000 crores as compared to FY16. Can you just walk us through the numbers, the mechanics of it, how it has got reduced?

**Rajesh Bhatia:** These were the amortization payments which were due during the year and they had been paid off as part of our regular amortization schedule.

**Amit Dixit:** Sir but we generated around 4600 crores of EBITDA and we had some interest payments also, so how has the debt reduction been funded?

**Rajesh Bhatia:** We didn't have any additional borrowing. So anything that we have done this year, whether CAPEX or interest reduction or the principal payments, it's only come from an operational cash flow as well as reduction of working capital and the divestments. So it is a mix of the key thing which has generated the cash flows, the operational EBITDA, the reduction in working capital and the divestments which we just mentioned about.

**Amit Dixit:** It would help if you could select the period between the divestment of assets and working capital?

**Ravi Uppal:** I think this is something Amit we can take it offline because it is detailed. We will be very happy to answer your questions but let's take it offline.

**Amit Dixit:** I have some more questions but I will come back in the queue.

**Ravi Uppal:** Okay.

**Moderator:** Thank you sir. We have the next question from Mr. Ravi Shankar from Credit Suisse. Please go ahead.

**Ravi Shankar:** Good morning sir, a good set of numbers once again. What is the amount on account of great slippage? Have you taken any credit because the cost of production per se has come down in JSPL?

**Rajesh Bhatia:** I think 5.76 crores.

**Ravi Uppal:** Precisely, 5.76 crores.

**Ravi Shankar:** Okay this is very nominal. The net debt as on year end was 45,490 crores, what was the corresponding figure in FY16 like to like?

**Ravi Uppal:** Approximately 46700 crores.

**Ravi Shankar:** Okay, that's all from my side, thank you sir.

**Moderator:** Thank you sir.

**Nishant:** We'll take the last question please?

**Moderator:** Sure sir, the question comes from Shalet Rao from SMP Global, please go ahead.

**Shalet Rao:** Congratulations on the brilliant performance. I just had one question. You mentioned that there will be coming up from infrastructure investments. I just wanted to ask by when do you think these investments will start flowing in and by when does that convert into actual steel demand?

**Ravi Uppal:** Let me tell you briefly on the demand perspective. In the last financial year the domestic demand rose by 3.5%, but added to that was exports which went to the level of 8.5 million tons. That was 105% increase in exports and the imports came down from 11.5 million to 7.4 million which was reduction of nearly 40%. So reduced imports, increased exports, and 3.5% growth in the domestic consumption all of them added together resulted in good demand for the domestic producer specially the primary producers. If you look at the total production increase of primary producer last year, it actually went up by close to 15%. The secondary producer's growth was 1.5%. All total the production of Indian steel industry went up by nearly 10.5%. This year as far as new demand is concerned, given the amount of investment which are coming specially in the infrastructure projects of highway authority, railways, port projects, international harbor projects and others, we foresee the demand to go up to 6% this year. We have an association of primary steel producer which is called ISA – Indian Steel Association

where all the major primary producers are members. So we have a consensus that this year the demand will go up by more than 6%. So already in the month of April and May, the demand looks pretty encouraging so I just hope that this momentum will sustain itself through the year.

**Moderator:** Thank you ma'am and that will be the last question for the day, I now would like to hand over the floor to Mr. Nishant for closing comments. Over to you sir.

**Nishant:** Thank you all for joining in the call. We are really sorry if we couldn't take your questions. But we at IR are always there to answer all your questions. Thanks again for joining us on the call, thanks a lot.

**Pallav Agarwal:** Thank you Nishant, it was a pleasure hosting the call. Thanks again everybody for participating in the call.

**Moderator:** Thank you sir. Ladies and gentlemen, this concludes your conference call for today. Thank you for your participation and for using Door Sabha's conference call service. You may all disconnect your lines now. Thank you and have a good day everyone.

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**Note:**

- 1.This document has been edited to improve readability.
2. Blanks or missing parts in this transcript represent inaudible or incomprehensible words.