Jindal Steel & Power Q2FY17 Conference Call

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Operator: Thank you for standing by and welcome to the Jindal Steel and Power Q2, FY2017 Conference Call presented by Mr Ravi Uppal. At this time, all participants are in a listen-only mode. There will be a presentation, followed by a question-and-answer session. At this time if you wish to ask a question please press *1 on your telephone. Now I would like to hand the conference over to Mr Jigar Mistry. Over to you sir.

Jigar Mistry: Yeah, thanks Shefali. Good morning everyone. Thank you for joining in the call today. We're pleased to host the management of JSP to discuss the 2QF17 results and the strategy going forward. I would request Nishant Baranwal, Head Investor Relations, to introduce the team on the call this morning and for the opening comments by the management. Over to you, Nishant.

Nishant Baranwal: Thank you, Jigar. I welcome everybody for JSP's Second Quarter and First Half FY17 Financial Results Conference Call. Today we have with us our GCEO and MD Mr Ravi Uppal and our CFO Mr Rajesh Bhatia. To start the call, I would pass the call to Mr Ravi Uppal for his opening remarks. Thanks a lot.

Ravi Uppal: Thank you, Nishant. A very good morning. Thank you for joining us this morning. As you know that we just announced the results of the Q2, during which our steel volumes basically rose by – in tonnage by 12%, and the sales rose by 13%. And this quarter was basically a monsoon quarter, so therefore the demand in the market was tepid and whereas the industry had really build up the delivery volumes so therefore, given the supply and demand situation, the prices came under pressure. And we realised that during this quarter the NSR consequently fell by a certain amount, which was in the range of to 1,000 to 1,100 rupees. Apart from this – the material costs also went up, coking coal has started to rise, and therefore that also contemplated to an increase in cost of production by about 500 to 600 rupees.

So increase in price of raw material cost, as well as reduced realisation – both of them put together, reduced the net margin for us by about 1,600 to 1,700 rupees, which basically translates into 4-5% in the EBITDA. And that's precisely the EBITDA which in last quarter was 21% came to about 17%. We always view that the second quarter is the one which is normally a low-performance quarter because of the seasonal cyclicity and the monsoon. And it lived up to the trend. And finally in Oman and Angul – both the places we took overall shutdown on our DRI furnaces, so that also brought the total volume down. While I did say that the volume went up by 12%, we could have done a lot more if both the furnaces were working in Angul and Oman. These were part of the plannned shutdowns.

As we step into Q3 from Q2, the plants are all in good shape, robust, and we definitely expect the earnings to go up during the third quarter. During the second quarter, we also started up our mines which were lying dormant and shut in Australia and Mozambique. We also hiked up our total mining capacity. So the international operations were given a big go-ahead signal, and as we sit here now all the mines are fully operational and the global operations are all set for major turnaround during the third quarter and the subsequent quarters.

You know in the second week on November, the government had announced demonetisation. This obviously is going to have a short-term impact, especially from the construction sector. But barring the construction sector, the rest of them are expected to come back relatively soon. And I reckon that primary producers like JSPL, they should see the volumes coming back to normal by the middle of Q4. So the segment which are affected are basically construction sector, with the reinforcement steel, wire rod etc. And then coming to plates, coils, rails and heavy structures, the volumes proposed are arguably less affected.

JSPL in Q2 also did very well in the pellet business. Our volumes rose and we did a record production of pellets in Q2. And parallel with that, we also increased the exports of pellets. By the end of second quarter, JSPL is the largest exporter of pellets. Pellets realisations have also started to go up, and it continues to go up to good levels. And right now the plant is running at about 85% of its capacity, which is very close to the maximum that can be achieved. This trend has started in the second quarter and continues in the third quarter.

As far as the Oman plant is concerned, due to the plant shutdown, during the months of July, August, our production has scaled down. But since then the overhaul is over and the plant has resumed to its full capacity during the third quarter. But this shutdown resulted in the cut down of production, and consequently the net EBITDA contributions of Oman also came down during the second quarter.

Second quarter also saw that the prices in Oman, because of the international competition, had been impacted, and there was a drop in the EBITDA levels of Oman. But the good news is as we go forward into the third quarter; the prices have staged a good recovery. EBITDA margins, for Oman plant as well as the operations that are in India – are staging a good recovery, a steady one. All of us in the industry, including JSPL, are impacted due to a big spurt in the prices of the coking coal, the pellets and also thermal coal. We in JSPL are somewhat fortunate that we have been impacted relatively less compared to our peers, the reason being that the JSPL's production model uses 70% DRI route, which uses normal coal produced in the domestic market. And 30% is based on coking coal, which we import like everybody else among the primary producers do. While the coking coal has impacted everyone, the impact has been relatively lower on JSPL due to the production model that we have. We hope that it will help us in the third and the fourth quarter to mop up our EBITDA margins. As we step into the third quarter – and hopefully we have the same trend for Q4 – we're on a positive frame of mind and all these trends taken together should really help JSPL's team and the global mining business to look up.

As far as the power business is concerned, there are two sides to it – the demand side and the supply side. We have a very robust supply side of power. All the plants are nearly fully commissioned, and tested, but the demand side has to show a definitive growth. Although there have been no tenders, the only tender that came was the UP tender where we participated. And as soon as the government makes up their mind to place order, I'm sure we'll get order for another 325 MW of the power.

We continue to focus on our operating costs. In spite of a relatively low PLF, we still have been able to achieve a better EBITDA during the second quarter, compared to 19% in last year. We increased this by 5-6% point to bring it to nearly 25%. So the focus on reduction of cost continues relentlessly. We're trying to get coal cheaper. We're trying to use lesser coal, because the coal fuel cost is a major component of our total cost. Nearly 55-60% cost is coal costs. So therefore, the management of the Jindal Power Limited is very focused on reduction of costs. And on the other hand we're trying to find new customers, whereby more and more capacity can be utilised. So we have a highly performing asset which is just waiting for higher utilisation.

So you can imagine that, if we use the full capacity most of the time, the EBITDA levels that JPL could generate. Q2 in spite of heavy odds, due to seasonality and the low power drawn by the merchants, have still had been able to produce better margins in JPL. On the steel side, we suffered a short setback, but we will be able to overcome because they were taken due to the planned shutdowns in our plants. So Q3, Q4, full capacity is available and we will try to see how best to we can increase the production further compared to the levels that we have done in Q1 and Q2. So all in all, I have a very positive feeling as I address you today about the prospect of business and our ability to improve both the top line as well as the bottom line.

And our initiatives on business excellence remain absolutely relentless. Therefore, we are not sparing any effort to have a better material cost control. We cut down our cost to operational excellence on the conversion cost. I'm very happy to share with you that – the order that we got from Iran, the deliveries are going well. In fact, deliveries are going faster than what we had planned. And the customers are very happy, and we are also getting many more enquiries for supply of our rails and structures. So I think this is a very high-profit business line, so the company's management, by framing a strategy, is trying to put more resources on businesses which are more remunerating.

And we're also trying to increase the capacity of rails to a level of 30,000 tonnes average on a monthly basis immediately, and in the next 3-4 months, we will take it to 50,000 tonnes. And I have already shared with you that we have been very successful in the launch of the head hardened rails. And we have got it now certified by Germany's leading quality agency, and the Indian Railways has also acknowledged that they're very pleased about the development done by JSPL. We continue to enhance our capability in the plates and coils. We have introduced several types of defence grades of steel, as you know that the demand on the defence hardware is increasing.

We're tied with all the major producers, you know, and as and when the demand now shapes up, we will have the supplies to defence sector, whether it's submarines or ships or heavy arms. You know that JSPL is very well poised to supply very high-quality steel, and together with another producer, I think we can meet the entire defence requirement of India.

We also have a big thrust on the export side. Export was subdued up to the second quarter for steel, but has started looking up in the third quarter. It looks good right now. We got a huge order for supply of steel to the American continent through one of our own group companies.

So, ladies and gentlemen, JSPL has been making relentless efforts for its full recovery. In the past, we have had setbacks for reasons beyond our control, which had a huge impact on our liquidity and the fund availability, but we're trying to come out of it. Our earnings have really suffered because of the Chinese competition in the past, low price levels, but we're gradually coming out of the shadows of this kind of negative factors. We are in constant dialogue with our lenders in a very positive way through the process of mutual dialogue to see how the debt can be restructured. And we have maintained an impeccable record in the past to service all debts. It’s only because of reasons beyond our control that we were not able to service some of the debts as per the schedule agreed earlier, but our lenders know our reputation and the seriousness with which JSPL meets these kind of obligations.

We are having a very constructive dialogue with them, both here in India as well as overseas. As you know, that 5/25 scheme has already been implemented. We still have further dialogues continuing to explore the possibility of restructuring and if we find it acceptable to us and to our lenders, we will take it further. But this is right now at exploratory stage. Having said that, I assure you that JSPL is a very serious company. It has unique strengths. It's one of the most innovative companies within the metallurgical space. We have taken bold initiatives for material security, which is going to be very rewarding for us. With the prices of the commodities increasing outside, JSPL is well poised to harvest the benefit of those investments.

So I thank you for the confidence that you have placed in us. And you can be rest assured that we will do anything and everything to bring back the company to its endeavour, and the journey for that has now started. Thank you.

Nishant Baranwal: Now, looking at the time, we'll probably open the floor for questions.

Operator: So shall I announce the question-and-answer session, sir?

Nishant Baranwal: Yes please.

Operator: Okay. At this time, if you wish to ask a question please press *1 on your telephone keypad and wait for your name to be announced. First question comes from Mr Rajesh. You may speak.

Rajesh Lachhani: Hello. So this is Rajesh Lachhani from HSBC. So I just wanted to understand the impact of demonetisation on the Q3 and Q4 volumes. I know it's quite early and the situation is still evolving, but if you can throw some light on what is your expectation on the volumes?

Ravi Uppal: Yes, as I said in my earlier comments – demonetisation was done just about a month ago. The first impact was on the construction sector, because that was the one which was most immediate. Then of course the volumes had a setback. The course of the construction industry especially housing and institutional building is going to get redefined. I reckon that the way it will go, would be clear by the end of December or early January. But my own take is that the construction industry would also come back by the end of the fourth quarter.

As far as the other institutions, customers are concerned; the impact has not been that much. For example, the ones who are making the water pipes, the people who are using them for making the construction equipment are segments which are still going on well. So in aggregate, I would say there has been a setback in demand. But on the other hand, there are some sectors which are trying to compensate from the construction sector, so the demand should largely come back excepting pockets of construction sector.

This year, the total Indian domestic market demand has grown by 2.9% up to end of October. And imports have fallen by 42%, and the exports have gone up by 40%. When exports grow, it's an opportunity for the Indian manufacturers to send out the hardware they produce. And when the imports fell for the same domestic demand, the size of the market which became available to the Indian manufacturers have increased. So this is how you see that the total steel volume up to end of October went up by nearly 8% in production. Reduced imports, increased exports, plus the organic growth of domestic market 2.9% - all these three things together kept the domestic industry having a high factor.

Rajesh Lachhani: Thank you sir. Sir, just some clarity, like you're expecting the steel demand to be around 5%-6% – this year. After demonetisation what is your expectation for this year?

Ravi Uppal: I don’t have a forecast for that. It remains to be seen how other things pan out. But up to end of October it was close to 3% growth. The Indian Steel Association has announced that they were expecting 5 to 5.5%. But a lot of it was to come in the second half of the year, which is starting from 1st October till 31st March. So I can't give you any more forecast than to say that I reckon that it will be at least 4 to 4.5%, if not 5.5%.

Rajesh Lachhani: Thank you, sir.

Ravi Uppal: But the situation is just volatile. A lot of things that we're seeing as they emerge are going to be in the next couple of weeks’ time.

Rajesh Lachhani: Thanks a lot for answering my question, sir. Thank you.

Ravi Uppal: Thank you.

Operator: Thank you. Next question comes from Mr Piyush Chadha. You may speak.

Piyush Chadha: Hi. Thank you. And I think after a long time you're seeing a significant turn in your operations. Congratulations for that. Just got a question on our ability to export. We're going to increase our steel production quite significantly between the third and the fourth quarters of this financial year. If you find it's not enough to absorb from Jindal steel and power, so we do have the ability to export some of this production?

Ravi Uppal: Your voice is breaking. Can you repeat the last line?

Piyush Chadha: Sure. In case we don't have enough domestic demand to absorb the increased production from JSPL, would we have the ability to export from our plants? Are we close to coastal locations? Are the rail links there to the ports?

Ravi Uppal: Yeah, certainly. Angul plant is just about 270 kilometres from the port whereas the Raigarh plant is about 550 kilometres, so we are well connected with the ports like Paradip, Haldia, and Gangavaram etc. And we're already exporting a lot of pellets. We never exported 300,000 tonnes of pellet per month, which is what we're doing right now. So we are going up. We're focusing on exports of both steel as well as the pellets and this thrust will continue, and we'll continue to pay more and more attention to give a quick boost to the exports.

Piyush Chadha: Thank you. What percentage of our iron ore is captive? I mean, given the kind of issues we face around Orissa, are we 100% reliant on merchant purchases of iron ore or do we have some of our own capital mines as well?

Ravi Uppal: So we have got 25% of iron ore requirement which comes from our Tensa mine, which produces about 3 million tonnes a year.

Piyush Chadha: With 25% of global requirement or Indian requirement?

Ravi Uppal: Indian requirement. We're talking about Indian steel plants right now. As far as the Oman plant is concerned, that is based on pellets, and they buy the pellets from us and they also buy the pellets from other international suppliers.

Piyush Chadha: Okay, thank you.

Operator: Next question comes from Mr Ravi Shankar. You may speak.

Ravi Shankar: Hello.

Ravi Uppal: Please go on.

Ravi Shankar: Yeah, Ravi Shankar from Credit Suisse. Two questions, sir. One was could you give us some insights on how the net debt has changed in the last six months. I understand the accounting has also changed in that time, but like-to-like where we are, and some insights into the cash flow – how much of Capex is left for the rest of the year? That is one. The second is question on pellets. So it's a 9 million tonne plant running at 85% utilisation, so that would mean a quarterly output of around 1.9 million tonne. Of that you have exported around 0.9 million tonne this quarter, is that right? And also what are the current – what is the current economics on pellets? What kind of margins do we make on these external sales?

Ravi Uppal: Okay, let me take the second question first and then our CFO, Mr Rajesh Bhatia – I'll ask him to comment on the debt part of it. As pellets are concerned, you know that we're right now producing at the rate of 600,000 tonnes a month. And this is based on the standard version of pellets. If the version becomes a special one based on the total CSS factor, then the output goes down a bit. But those pellets, of course, fetch you a higher price. So on total we produce about 600,000 tonnes and we're exporting about 300,000 tonnes out of that. So that is about 50% of what we produce. It's very difficult to fix a number on the pellet margins because the prices have been very volatile. But in the recent months they've moved in a favourable way. As we sit here today the global pellet price is about $100. It is very hard to tell how things will work out as we go into the future.

Ravi Shankar: So what would be our cost of production, then?

Ravi Uppal: Well, that also depends on what the cost of iron ore fines and anthracite and other things which go into it are. Pellet is top of our jewels in the crown, and we definitely make a decent EBITDA on that – high double digits.

Ravi Shankar: Okay.

Ravi Uppal: Okay, shall we switch over to your question on the debt part?

Ravi Shankar: Yes, sure, Mr Uppal.

Ravi Uppal: He could answer you. Rajesh?

Ravi Uppal: Hemant, are you there on the phone?

Hemant Kumar: Yeah.

Ravi Uppal: Hemant, can you take the question please?

Hemant Kumar: Net debt as of today is 46,300. Even in June it was 46,300, and 31st March it is around 46,000 gross. It more or less remains the same in the last two quarters.

Ravi Shankar: Okay but – so that would imply EBITDA is able to service all the interest cost and the Capex that is going on right now? That is the only way we could get to that, but if we were to see the reported numbers, the EBITDA barely sort of matches interest cost. In fact, this quarter it has been slightly lower. So I was just wondering is there some working capital release, and what has been the Capex so far, if you could also share that.

Ravi Uppal: Yeah, okay.

Hemant Kumar: If you see in 31st March, we have our opening cash around 800 crores. Today we have around 200 crores. That's 500 crores cash being utilized towards the Capex amount. And there would be a – some kind of working capital reduction around 500 crores. That put together has helped us to finance our capex.

Ravi Uppal: I would just like to add to what my colleague had said. We have a massive programme within the company to reduce the working capital. And therefore we have been to release as much as 700 crores from the working capital alone. So therefore, reduction in working capital plus the cash position that we had at the start of the year – both these things have been utilised to make sure that any Capex that we take up is met, or, if there was any shortfall EBITDA, to meet the interest obligation. So we use that money also to plug the gap.

Ravi Shankar: Understood. Thank you, sir.

Ravi Uppal: Okay.

Operator: Thank you. Next question comes from Mr Sanjay Jain. You may speak.

Sanjay Jain: Hi sir. This is regarding your power business. From EUP 2 you're saying that PPA with Kerala 200 MW, the supply started, if I'm correct, in the month of June. I want to understand what is the status? Like, will we see ramp-up in volume in the third quarter because of this PPA?

Ravi Uppal: Well yes, we have signed two PPAs with the Kerala state. One of them was for 200 MW and second one was 150 MW. The 200 MW got the open line access for about 165 MW which is what we have been supplying so far. Now we have got the additional permission for another 25 to 30 MW, for which we will start supplying the power from the middle of this month. So that complete those obligations for Kerala under the first contract that we got. The second contract, which is 150 MW – the contractual date for supply of that is actually October 2017, but the government of Kerala has told us that they want to advance it to the month of May. So, because they have told us that the open access is required by May. Therefore, both the contracts as such are active, and more than half of that is operational. The second part will be operational by May 2017.

Sanjay Jain: Right. So overall, would you see improvement in PLF at JPL? I mean in the – let me say EUP 2/3?

Ravi Uppal: In EUP 2, by May. If the UP contract comes to me, then the whole 1200 MW is covered by the PPAs. I'm very optimistic about the UP PPA, for which we were the second highest bidder, that PPA should get signed before either we exit this month or early next month. If for any reason that doesn't get signed, we will make that go by supplying the merchant power. Two machines of 600 MW will be fully, fully utilised. So that is 1,200 plus running the four machines of 250 MW where once again we have medium term contract with Tamil Nadu for 200 MW, plus we have some other contracts with the industries in Maharashtra and in Chattisgarh.

So also there again with this part which is contracted, and other we are supplying to grid depending upon what the exchange rates are. At least 500 to 750 MW of the EUP 2 4X250 will be used. So, total capacity utilisation should be 1,700-1,950 MW.

Sanjay Jain: Great, got it. One more question on steel business. Are we – what kind of volume should we expect in the third quarter? Should we see volume increasing, or they're going to be similar to what we have seen in the second quarter?

Ravi Uppal: I had mentioned to you earlier that the Oman plant and the Angul plant are now functional. They were not fully functional during the second quarter, because we had taken an overhaul on them. These plants are back into action. Therefore, you should see an increased output during third quarter compared to the second quarter. And I would reckon a 10% increase could be expected in volumes.

Sanjay Jain: Yeah, that's helpful. Thanks so much.

Ravi Uppal: Okay. Welcome.

Operator: Thank you, Sanjay. Next question comes from Mr Kamlesh Bagmar. You may speak.

Kamlesh Bagmar: Thanks, sir. Sir, one question on the part of this mining operation. Sir, what's the update on those mines, like the – what run rate we have achieved? Because even in the earlier call, like Q1 earning call, we had mentioned that we are operating Australian mine at 80,000 tonnes a month, but we haven't seen any production from that particular mine in this quarter. So what's the update on those overseas mines?

Ravi Uppal: Yeah, I first want to set it right with you that the Australian mines started operations from the middle of August. These mines were under care and maintenance. It takes you a while before you become productive. And the real production has started from the end of September. And now in October, November, December, we have started exporting the material. And even today, as we talk, we are loading a ship for 80-90,000 tonnes. So therefore I would think that, for the third quarter, you should expect an average per month in the range of about 65 to 75,000 tonnes.

And from February onwards, when we will have two plants operate in the same mine, then the production should be in the range of 85 to 100,000 tonnes. So that is about Australia. And from 1st October, we also started operating our Mozambique mine – open-cast mine, which is a big mine where we started in the first month with 100,000 tonnes. Second month, we trying to increase it to 200, and finally it should stabilise around 250,000 tonnes a month around. Okay? So these are the plans on which we are acting.

Kamlesh Bagmar: And sir, what are the profitability levels in these mines?

Ravi Uppal: Well profitability depends as to what is the price level ruling in the market. Right now the coking coal and thermal coal – both of them have a very positive run. So I would say that the coking coal of course has a bigger margin. But even thermal coal looks pretty good. At the EBITDA level it should be in the range of 30% plus.

Kamlesh Bagmar: Yeah, yeah. And so lastly, on our blast furnace in Angul, what's the update on that? When it is going for production?

Ravi Uppal: Well, that's a good question. As you know, in my last discussion with you I told you that we're going to slow down a little bit on the capital expenditure for Phase 1B, which is what we did. The blast furnace, the coke oven battery and the sinter plant were the first three plants we were in the process of completing. I'm happy to tell you that the first battery of coke oven has been charged. And hopefully, it should start producing from early January. It's under heating. It is lighted up already. As the blast furnace is concerned, the installation is at a very advanced stage. So we're hoping we should be doing the pre-commissioning checks before the end of Q4 and also the start of the commissioning process. So that is about the blast furnace. And the same thing is for sinter plant, which has also been done. It is in synchronisation with the blast furnace, because the output of sinter plant goes to the blast furnace, so both of them are in the completion stage.

Kamlesh Bagmar: Great, sir. Thank you.

Ravi Uppal: Okay.

Operator: Thank you, Kamlesh. Next question comes from Mr Abhishek Poddar. You may speak.

Abhishek Poddar: Hi sir. Thanks for taking my question. Sir, I just wanted to get some more clarity on the volumes front in India. I think when we started the year we had indicated that we can do 4 million tonnes from Indian operations. What is your revised estimate of this year? And also given we're starting commissioning of Angul Phase 1B from fourth quarter, what do you think will be the volumes in FY2018? I know it's a little early, but given your assumptions of the demand which can be created in the market, what would you probably thinking? Thank you.

Ravi Uppal: Let me give you some clarity on this. You know you could literally take into for now and for future. The plant we have in Raigarh which is fully commissioned, which was upgraded and modernised last year – our total capacity there is about 3.6 million tonnes, okay? Then we have the Angul plant where we have right now a functioning steel plant based on the DRI route, and we get the gas from the same gas plant, which constitute coal gasification plant. There the capacity is about 1.5 million tonnes of the steel melt shop. Then we have the blast furnace coming. The blast furnace is about 3.2 million tonne blast furnace. It means when the blast furnace gets completed, at that point of time our total capacity to produce steel will be near about 5.0 million. But for us to realise the 5.0 million (the blast furnace would give the hot metal, and we will also have all the inputs from the DRI plant etc.) we need to complete the basic oxygen furnace, which is 2.5 million tonne. So even though we will commission 5.0 million tonne, we will build up the volume progressively from Angul, so from 1.5 million tonne that we have now, we'll first go to 2.5 million tonne in the year 2017-18. Then, towards the end of 2017-18, we'll ramp it up to 3.5 million tonne production.

So if you talk about the next year, the total Angul production will be 2.5, and Raigarh will be 3.5. Both of them together would be capable of producing 6MT out of India for the year 2017-18. A year later, when we take Angul to 3.5 and Raigarh to 3.5 already there, it would be 7MT. And another year later, you are close to 9 million tonne – close to 5.0 from Angul and 3.5 from Raigarh. And add to this Oman, which is 2 million. So then at that point of time we are about 11 million tonnes total capacity as a group. Does that answer you?

Abhishek Poddar: Sir, fair enough. Sir, it does answer my question. But I just wanted to get some clarity that how do you see the demand situation, because obviously, the quantity is increasing from the company side? But how do you see the demand, because my understanding in the first half of this year, the demand has been really weak on the long product side. So is there any plan that you would be exporting some quantity.

Ravi Uppal: Yes given that the organic growth in demand of the market was slow. It was for the first few months at 0.5% growth. But later on it picked up, in September, October, and it came to a rate of 2.9% growth of the market. So mark that as point 1. Number two, exports have started to look up. And if the dollar-rupee parity doesn't get worse and it remains in favour of rupee, then exports will continue to look up more and more. Third is the replacement of imports. I mentioned to you earlier the imports have come down by nearly 40%. So that means the total demand which was there, catered by the international suppliers – that will now be available to domestic suppliers. So all these three things together have produced a positive impact, and I just hope that the Indian producers will continue to work from all the three fronts – that is, the ramp up in the domestic demand, cut down the imports and increase the export. That could really help Indian industry to grow their own volumes by 8 to 9%

Abhishek Poddar: Sir, second question is regarding the Australian coking coal mine. If you could give us some sense that, based upon the benchmark prices, what kind of a discount that you get or what would you – be your realisation, assuming, you know, let's say coking coal prices tomorrow fall down to 150 or $180 per tonne? And again, some sense on the cost and the coking coal mine in Australia.

Ravi Uppal: Well it's very difficult to say because the volumes, market prices – these are all related things. But as I mentioned to you earlier that we are producing the prime hard quality coking coal in Australia, but we don't wash it. We're selling it as mined. So therefore the price that we get in the market is based on the coal as mined. And this of course is related to the price of international price of coking coal with 9.5 to 10% ash. So based on that price, currently this coal touched on the high of 309 to $310, and right now it is in the same range. It has just marginally moved. But the general feeling is the coking prices will not go down too much, because lot of mines in the United States, Australia have closed down. They're closed down for good. So there is a shortage of coking coal. The Japanese have signed a five-year agreement at a price of $204-$205 in the month of October. So that is a floor. It cannot go below that. So my own view is that prime hard coal will stay in the range of 250-plus. And as long as it stays at 250-plus, I think JSPL will have it as a profitable business and an attractive business.

Abhishek Poddar: Fair enough, sir. Sir, this is the last question – that how much is the Capex expected for this year, and how much has already been spent?

Ravi Uppal: Well, the total Capex for this year budget is – just a moment. Total budget was 2,200 cr. We have spent 775 crores.

Abhishek Poddar: Okay, sir. Thanks a lot, sir, for this.

Operator: Thank you. Next question comes from Tanya Kothari. You may speak.

Tanya Kothari: Yeah, good morning, sir. My query – question was on flat steel domestic prices shot up post-demonetisation, but I could see there is no impact seen in the prices of long products. Can you tell the reason on that?

Ravi Uppal: Well, the impact on different products is different. I'll tell you the reason for that. These flat products are basically produced by the primary producers, and these primary producers use it to produce it to the blast furnace route. And the blast furnace uses coking coal, whereas the long products like TMT; in India 70% of it is produced by secondary producers. And they're producing using the DRI route. DRI route uses domestic coal. So therefore you may not have seen much increase in the price of TMT. It did increase, but not much, because of the presence of secondary domestic producers.

But post-demonetisation, these are the ones which are most affected – the secondary producers. The reason being that these people used to do largely cash business with the builders and the construction segment, so if at all there is anyone affected with the demonetisation, is basically the secondary producers producing long products. The larger flat products are produced by large companies. You know, the top major company which are about 12 of them, and they're the ones who produce 95% of that flat products and other long products like structures or rails. These are produced by them and they all use coking coal, and since the coking price went up so they had to recover that additional cost on the market.

Tanya Kothari: And this is – the second query is on the export side. Industry-wise, we have seen like export increase by 42% which you have mentioned. And at the company level, what is the growth seen, and what is the value in terms of value in Q2 or in H1?

Ravi Uppal: Well as we're talking about Q2; the market was somewhat subdued both internationally and domestically. The only thing which was getting exported largely in the second quarter was the pellets, which continues through the third quarter. But as far as the finished steel is concerned, the exports were modest. But it is all changing now with the effect of the third quarter.

Tanya Kothari: Okay and sir we are also going to building, rail infra segment, as well as different segment. Can you a little bit elaborate on that, like what is the size of the market in each of these segments, and are we focusing on the niche products? What would be the given timeframe where we are going to find the grade coming in from these segments?

Ravi Uppal: We are always trying to get in the niche markets where we can give high-quality product which is of a unique alloy composition. That is what explains what we are doing in Angul. Angul has been producing only high-grade steel plates which nobody else in India can match. And it has the country's best heat treatment shop where we can produce defence grade. We can produce API grades of any kind. And their realisation is better, and it also puts us into the developed markets like Europe or US and others. So our approach is that.

Then we produce rails. We and SAIL are the only two producers of rails in the country. And we produce heavy structures – parallel beams. We are the only two producers in the country. The point of me giving this example is that we are very selective about what we give as a finished product. We do not like to be in a market which is overcrowded, commercial grades, low quality because that's something which even the small secondary and tertiary producers can do. So therefore, the idea is to increase our NSR. Idea is to make sure that we don't have cutthroat competition coming into price zones which will make your business sustainable.

Tanya Kothari: And sir, on the margin trend, like, we have seen the raw material prices shooting up; but we're also seeing the prices of steel has gone up. Are we going to pass on this to the consumers like in Q3 and Q4; are we seeing the rise in price also?

Ravi Uppal: Our customers are very dear to us. We are there because they are there. Therefore, we're very, very mindful about any price increase that we do. We try to insulate them against small variations. But then there comes something which is absolutely beyond you, like increase in price of coking coal. It increased from 85-$90 to $300. So that's something we simply cannot endure. And we are also trying to pass on the impact of that cost to them progressively. For example, if I had the old stock lying with me at the old prices, so I did not increase the price until the new stocks arrived, then I had to progressively pass on the cost impact to them. It's not only for us. It's the entire Indian steel industry – all the primary producers are trying to minimise any sort of carryover cost effect to the customers.

Tanya Kothari: Okay sir, then what would be your guidance and margin sir for FY2017, seeing the demonetisation in effect?

Ravi Uppal: I wish I knew myself. I should be asking you. But the fact is the market conditions are very volatile – both the raw material side and the market side of steel. So if I try to give you any guidance, it can be erroneous. So all I'm trying to say, things are looking better as we step into third quarter. Let's just hope the trend continues. We already have two months behind us. We're into the third month. So, God willing, everything should do well for us.

Tanya Kothari: Okay. Thank you, sir.

Nishant Baranwal: We're short of time. We'll probably take the last question in now.

Operator: Okay. Next question comes from Mr Manan. You may speak.

Mannan: Hello sir. I just wanted a couple of operational points on power. If you could just let us know the net debt at power, and the approximate coal cost – does it remain – I mean, there would have been an increase of about 7-8% over 0.6-0.65 kcal that the run rate – that the company had, right?

Ravi Uppal: Our total debt in JPL is about 8,000 crores. That's the net debt we have. As far as the coal is concerned, we have the linkage and the coal bought in auctions. And the quality of coal varies very radically from one place to the other. We have had cases where the coal supply has not been up to the grade which is promised. We have taken it up based on available mechanism. With Coal India & their subsidiaries, we told them that we have made claims with them for the grade slippage. But as of now, our total coal consumption is critically dependent on the grade availability. If we're using the grade which is G12, G14, then our consumption at the net level is about 0.70 to 0.75 kg per unit. This is the coal which is 3,200 kilocalories. So our basic intention is to see the fuel cost reduces. We're constantly working on it. And I've already said our EBITDA improved in spite of these factors from 19% to 25% because of the operational improvements, including the fuel consumption.

Mannan: Yeah, sure. Thank you, sir.

Operator: Thank you, Manan.

Nishant Baranwal: Hi. So this is it from the management, and we thank you all for dialling in and listening to us today. With this I'll pass on the call to Jigar.

Jigar Mistry: Yeah, we'd like to thank the management for taking time out to apprise us of all the updates. All the best in the future as well, sir. Thank you.

Ravi Uppal: Thank you.

Hemant Kumar: Thank you.

Operator: Shall I conclude the call, sir?

Jigar Mistry: Yes.

Operator: That concludes our conference for today. Thank you for participating. You may all disconnect now. Thank you everyone.

[END OF TRANSCRIPT]