



“Jindal Steel & Powers Limited Q2 FY 2018
Conference Call”

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ANALYST: MR. ABHISHEK PODDAR - KOTAK SECURITIES

**MANAGEMENT: MR. NAUSHAD A. ANSARI – CHIEF EXECUTIVE OFFICER
(STEEL BUSINESS) – JINDAL STEEL
MR. BHARAT ROHRA - CHIEF EXECUTIVE OFFICER
(POWER BUSINESS) – JINDAL STEEL
MR. NISHANT BARANWAL- HEAD, INVESTOR RELATIONS –
JINDAL STEEL**



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Moderator: Ladies and gentlemen, good day, and welcome to Jindal Steel & Power Limited Q2 FY2018 Earnings Conference Call hosted by Kotak Securities Limited. 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 call, please signal an operator by pressing “*” 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. Abhishek Poddar from Kotak Securities Limited. Thank you, and over to you, Sir!

Abhishek Poddar: Thank you, Janice. Good afternoon, everyone. This is Abhishek Poddar from Kotak Institutional Equities. It is a pleasure for us to host this call. We have with us senior management of Jindal Steel & Power to discuss 2Q FY 2018 results. So I now hand over the call to Nishant. Over to you, Nishant!

Nishant Baranwal: Thank you, Abhishek. Good afternoon, everybody. We welcome you all to our second quarter FY 2018 earnings call. Today, we have with us our CEO for Steel, Mr. N. A. Ansari, and our CEO for Power, Mr. Bharat Rohra. So to kick-start the proceedings, I will request Mr. Ansari to open with his comments.

Naushad A. Ansari: Thank you, Nishant. Good afternoon, ladies and gentlemen. It is my pleasure to present to you our results and then take your questions and answers.

I assume that you have already gone through our press release. I am very pleased to tell you that we are firmly on the path of recovery. As you can see from the results, our EBITDA numbers are much, much better compared to last year. For example, the EBITDA on standalone basis for steel is 48% up to Rs.784 Crores. And on a consolidated basis, it is up by 62%.

The EBITDA for JPL has gone up by 89% on a year-to-date basis. This has happened despite this being a very lean period and rainy season.

All our units have done exceptionally well. And of course, the key for us is Angul plant as of now. When I say key, I mean this is a plant which is going to turn around the entire operations for us.

Now in Angul, I would like to inform you that the blast furnace, which we had started a few months back, is now firmly up and running and it can operate at the required capacity.

However, once we commission our BOF, the Basic Oxygen Furnace by first week of December, then we will be in a position to operate the blast furnace at full capacity. Presently, it is running at only about half the capacity.

And once that is done, then our production capacity can increase up to full capacity of 5 million tonnes, and we should be able to produce that.

The ramp-up period for BoF is normally very small. So therefore, we expect that the benefits will start coming in Q4 of this financial year.

Soon thereafter, once we have commissioned the BOF, we would also start our DRI plant, which at present is under maintenance, so that we can firmly move towards our 5-million tonne capacity in Angul.

Raigarh has also done very well especially in the areas of rail supply. We have already started Raigarh rail supply and we have got orders from Iran. And I am also very happy to tell you that we have supplied almost 130,000 tonnes of rail to Iran in the recent past and in a record time, and they are extremely happy with us.

Our Wire Rod business in Patratu has also done very well. They are on a recovery path fully and they are actually EBITDA plus.

We have done quite well in Barbil also. Although there is a marginal drop in production, but that is simply because we have produced higher-quality material. These pellets are of blast furnace grade as well as of DR grade and this time we have produced DR grade also in substantial quantity, so -- which actually leads to a little bit of productivity drop. But overall, the profitability is very good.

The other plant, which we are really proud of is Oman, which has done wonderfully well. Their production is up by 52% and EBITDA for this Oman plant is up by 316%.

We have been hearing that we are already #1 in UAE, and #2 in other areas of GCC. We are also a preferred supplier now.

Now I will hand over to Mr. Bharat Rohra – our CEO for power business, who will tell you about the power plants. Thank you.

Bharat Rohra:

Good afternoon, ladies and gentlemen. It is a pleasure to be available to answer your queries on our performance in this quarter.

Briefly on the power sector, the turnaround within the company, in the power and the steel front, is continuing and it's showing results since the beginning of the current fiscal year.

We have seen excellent growth as compared to the last year's same quarter, where we had an EBITDA of Rs.182 Crores; it has risen to Rs.345 Crores in this quarter.

As far as generation is concerned, we generated 2,427 million units in this quarter as compared to 2,313 million units in the same quarter last year.

The PLF has decreased to 32% from 37% last year. But in spite of that due to better prices, the EBITDA has shown remarkable increase.

The revenue of this quarter increased by 20% compared to the same quarter last year.

Cash profit generated has been Rs.187 Crores in this quarter as against Rs.107 Crores in the corresponding quarter last year.

As compared to the previous quarter, the EBITDA has gone down from Rs.468 Crores to Rs.345 Crores because of the severe coal shortage.

The entire power industry has been hit by this coal shortage. And because we are located in the mining area, we have managed to survive whereas a large number of power plants have shut down during this shortage, and within the industry, we have done well to generate this EBITDA in this quarter.

The outlook for power in the next quarter continues to have a mixed outlook as coal prices, which have gone up substantially in the months of October and beginning of November, will take some time to come down. And it will all depend upon Coal India being able to meet the demand of the power plants.

The rates on the exchanges continue to be in the range of three to four, and there is opportunity to earn if the power companies are able to generate and buy enough coal.

Coal India's production, although in the current year has increased from the last year. Last year, first six months, they had produced 104 million tonnes. And this year in the first six months, they have produced 113 million. But if we compare it to the previous quarter, it has gone down. So we are hopeful that coal availability will improve and we will be able to perform better.

As regards to power purchase agreements for long-term purchase, these continue to be rare, and almost all state utilities have changed their power procurement strategies to procure power only on medium-term basis, and this ranges between one month and five years. In fact, their entire thrust now is on buying power on month-on-month basis.

However, we have managed substantial PPAs, and now in view of the coal shortage, we are trying to meet our generation to be able to supply to all these PPAs, and the PPAs currently in position are in excess of 1,000 megawatts. And as of short term, PPAs are in the range of 300 to 400 megawatts. So this has helped us survive, and we hope that the next quarter will be better than this quarter.

So over to Nishant now!

Nishant Baranwal: With that, we would like to open the queue for questions. A comment before we start, please do not ask repeat questions and limit yourself to two questions per participant. It would be great if you could ask only strategy questions. We are there at IR to help you with the questions. Thank you.

Moderator: Thank you very much. We will now begin with the question and answer session. Requesting all the participants to please limit your questions to two per participant. Thank you. We take the first question from the line of Atul Tiwari from Citigroup. Please go ahead.

Atul Tiwari: Congratulations Sir on sustained turnaround in company's financials and operations. Sir, my question is on Oman plant. This quarter, we have seen a very strong EBITDA number, and if we back calculate EBITDA per tonne it is about \$125. My question is on the sustainability of this number. And can we increase the volume from that plant even from this level?

Naushad A. Ansari: Okay. So if you look at the reasons for this high number of EBITDA, there are several reasons. One reason is our increased production. We have been able to increase the production of steel melt shop as well as the rebar mill quite substantially.

The other reason is, of course, that the market has supported us quite well and our products are accepted as one of the best products around, and the fact that prices are also quite firm.

We have also very judiciously managed our product portfolio in the sense that we supply rebar, and rounds. And in certain cases, we also supply metal pellets.

So going forward, it is true that the prices have started softening a little bit, but we still have not reached 100% of our production capacity. And therefore, we expect that the entire EBITDA range, which should be around \$87 million in the first half of the year shall in fact improve.

Our overall yearly EBITDA should be certainly more than double of this. So I hope that answers your question.

Atul Tiwari: Yes. Very helpful. And then my second question is on Australian mines. What is the status there? Have we restarted the production after the contractor's bankruptcy? And if not, when can we hope to see the restart of our production?

Naushad A. Ansari: Right. So you are already aware of the bankruptcy of the contractor who was working for us, in the month of May. Thereafter, we have moved forward substantially. The development work for the mine is already going on, and we do expect to restart this mine before the end of the year.

Atul Tiwari: Thanks a lot.

- Moderator:** Thank you. We take the next question from the line of Ritesh Shah from Investec Capital Please go ahead.
- Ritesh Shah:** Congratulations for a good quarter. Sir my first question is on the volume guidance. Earlier in the year, we had guided for 5.5 million tonnes from the Angul facility. Sir, how do we see that number? How should we look at this given the ask for the second half is pretty high?
- Naushad A. Ansari:** We are now aspiring to be somewhere between 4.5 million to 5 million tonnes in this particular year.
- Ritesh Shah:** Sir, what will be the mix between BOF and DRI over here?
- Naushad A. Ansari:** We are starting the BOF by first week of December. And thereafter, we expect a very quick ramp-up. So say in Q4 going forward, we are expecting substantial portion to come from BOF. In fact, 70% to 80% of the materials will come through BOF with immediate effect.
- Ritesh Shah:** And Sir, how much will this be for next year, sir, 4.5 million tonnes?
- Naushad A. Ansari:** For FY2019, we should certainly be aiming for 6.5-7.0 million tonne from both Angul and Raigarh combined.
- Ritesh Shah:** That helps. Sir, my second question is on the power side. Sir, I believe we are guided for around 1,700 megawatt of sales, to my understanding what we have done so far is roughly 700 megawatts. So Sir, how should we look at this number? That is one. And secondly, any update on the linkage auctions or events that we have?
- Bharat Rohra:** No. Presently, the plant has been operating in the range of 1,200-1,300 megawatts. It is not at 700 megawatts, as quoted by you. But this has been in the range of 1,200 to 1,400 megawatts only on account of low coal availability. We are having chance to sell power on the exchange because the rates are pretty good and we hope to go on to 1,900 megawatts before the end of this current year with our coal availability improving.
- Ritesh Shah:** Sir, you're referring to the sales for the full year, 1,900 megawatts?
- Bharat Rohra:** Towards the end of the year, every day we will be generating 1,900 megawatts.
- Ritesh Shah:** And I am asking for full year, sir. How much will be the sales? So for first half, we have done around 700 megawatts. And what you we are guided for 1,700 megawatts, sir, so how should we look at this number, full year sales?

- Bharat Rohra:** It will be in this range because now we are in the 1,400 range and another month or so, we will be touching 1,700. Then the last 3 months, we will be touching 1,900. So we will be, on an average of 1,600 to 1,700.
- Ritesh Shah:** That is perfect. And on linkage?
- Bharat Rohra:** We have got linkage for 2 units of 600 megawatts. And most of the coal is on linkage basis. We are taking auction coal only for sales on the exchange, and to meet the shortage, which the coal companies have not been able to provide. So most of our coal is now coming through the linkage route only.
- Ritesh Shah:** Sir, I was referring to the Shakti scheme. Last call, we had indicated we will be looking for further auctions, which the government could pick up. So any success over there, sir, any updates?
- Bharat Rohra:** See, the government has come out with this Shakti scheme for plants, which are having PPAs, but no FSA. They are likely to come out with another variant in which they will give coal to people who are medium term PPAs. Because right now, long term PPAs are not there in the market at all. We are looking forward to this amendment from the government in which they will allocate coal to power plants having medium term PPAs
- Moderator:** Thank you. We take our next question from the line of Sanjay Jain from Motilal Oswal Securities. Please go ahead.
- Sanjay Jain:** Yes, I have one question on power and one on steel. Let me first ask the question on power. When we say that we will ramp-up to 1,900 megawatt by the end of year, what will be driving this thing? One thing I can understand is that there is a 150 megawatt PPA from Kerala which has started, if I am correct, in October, what else will be there driving this ramp-up?
- Bharat Rohra:** Yes. This Kerala PPA kicked in October and then we have the 200 MW PPA from Tamil Nadu, which expired in September and we have got an extension up to 2019 August.
- So power under this PPA will start flowing any month, as soon as we get the open access which has already been applied. As soon as it starts, we will go to the 1,700 range. And then there are other tenders coming up from Maharashtra, from Bangladesh, which are all in the medium-term range, and they are all going to be opened in the next one or two months. We are confident of bagging at least one of them. And thereby, we go to the range of 1,900 megawatts.
- Sanjay Jain:** Okay. Just one clarification. In the second quarter what was the offtake from the Tamil Nadu PPA? Like, were they taking full allocation or are they were taking only partially? I just want to see on an incremental basis?

- Bharat Rohra:** No. When they were taking the generation, they were taking full quantum.
- Sanjay Jain:** Okay. Got it. The second question is on steel. If I look at year-on-year in the first half, our production has not materially increased despite the fact that we have got new blast furnace up and running in Angul. So what is the reason like? Is it that we ramped down in Raigarh or are the Angul production itself has not increased year-on-year?
- Naushad A. Ansari:** As I mentioned, the blast furnace was started few months back, but the very fact is that this blast furnace is quite large and it needs to be managed along with a large BOF. And that is the reason that this blast furnace could not be run at full capacity. The idea of starting this blast furnace was to make sure that all other associated plants, like sinter plant, coke ovens, blast furnace, everything is up and running before the BOF actually starts, because BOF normally doesn't take so much time for ramping up. So now everything is ready. You are absolutely right that as of now, not much production gain has happened from the start of the blast furnace, but now is the time once we commission the BOF, you will see a dramatic turnaround in the last quarter.
- Sanjay Jain:** Actually what I wanted to understand is what is the breakout between Angul and Raigarh? I am just trying to understand, have you ramped down Raigarh production or it's the same level as it was last year?
- Naushad A. Ansari:** Yes. By and large, it is the same level. I mean, if you look at Q2 production in Angul, it was close to about 220,000-230,000. By and large, Raigarh has maintained that production level. Also, it is important to understand that in Raigarh, once you roll rail, then the productivity drops down. However, rail still gives you much better EBITDA. So therefore, it might look like there is some reduction in the overall production. But the very fact that the product, which gives you better EBITDA, is on super dollar per minute basis is better compared to the other productions, which do not give that much. So therefore, overall, the decision was taken to make sure that our EBITDA margins are sustained.
- Sanjay Jain:** Thank you so much. Best of luck.
- Moderator:** Thank you. We take the next question from the line of Kamlesh Jain from Prabhudas Lilladher. Please go ahead.
- Kamlesh Jain:** Thanks for the opportunity. Just one question on the part of this 1,000 megawatt power plant deal to JSW Energy in the light of the fact that some comments were made by the JSW management in the media that JSPL is not in the position to go for the sale of this plant. So I just wanted your comments on that.
- Naushad A. Ansari:** Yes, I think I'm not quite sure whether it is being quoted very carefully because our understanding is that this deal is very much on the table even now. The deal is still in the middle of next year. Obviously, the entire movement is much slower simply because the coal availability

is an issue; the PPAs are an issue and so on. And in this environment, you obviously need longer time to conclude the deal. But certainly, the deal is very much on the table. And in fact, we believe quite firmly that there is something that's going to happen.

Kamlesh Jain: In the deal like when we announced that it was clearly mentioned that if the FSAs and PPAs are not included then we would get a consideration of Rs.40 odd billion, so what is the issue on that part, like if they do not have the PPAs or FSAs the deal can go through even without those things?

Naushad A. Ansari: Yes, but there is still sufficient time before such a decision is taken. We are talking about middle of next year. And we are very hopeful that by that time, if the situation is improved then we should be in a situation where we are able to conclude this.

Kamlesh Jain: And so lastly, how much is the capex we are going to do in this year and next year?

Naushad A. Ansari: In this year, we are talking about something like Rs.1,800 Crores and next year is close to about Rs.1,300 Crores.

Kamlesh Jain: Thank you Sir.

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

Amit A. Dixit: So my question was that you just mentioned that you are actually increasing the rail utilization at Raigarh. So I was just wondering that you are currently supplying to Iran, but Indian Railways also needs lot of rakes and currently SAIL is only preferred vendor. So are you negotiating with Indian Railways to supply rails to them also?

Naushad A. Ansari: Yes, of course. I mean, that is something, which we are greatly looking forward to because for a very long time we wanted to get into this. We have been supplying rail and of course, we mentioned about Iran, but that is not a direct deal that is through STC, but we are also supplying to a number of other units of in India for example, DMCC and DFCC and several other networks. And it is our desire to get into Indian Railways. We already had lots of discussions around this with Ministry of Steel as well as Ministry of Railways. Things are moving in a very positive direction, and railway is considering us favorably now. So we are hopeful we will have the bigger part of that amount which is coming out.

Amit A. Dixit: The second question is regarding Oman unit again. Given that the Rebar Mill has also ramped up now. So are you planning to expand over there in Oman?

Naushad A. Ansari: Not immediately. I would not say that we are planning to expand immediately. What we are certainly going to do is some balancing work. For example, there is some work which is required

to be done in terms of caster. So we are seriously working on that, and that is a very small investment there, which we can manage.

So as I said, it is more like a balancing project that we are thinking of, and not expanding the capacity as such, simply because the overall capacity in GCC today is more than the demand. And therefore, putting up additional capacity as of now does not make much sense, unless the entire economy there improves based on the petrodollar which has come down suddenly and has led to a little fall in the overall demand as of now.

Amit A. Dixit: Thank you.

Moderator: Thank you. Next question is from the line of Ashish Kejriwal from IDFC Securities. Please go ahead.

Ashish Kejriwal: Sir my question is on Indian steel production firstly. What will be the exit rate according to you in FY2018? And after the full ramp up of BOF, what is the maximum production, which we can do in a year in steel in India?

Naushad A. Ansari: So after putting up the BOF, the maximum production capacity in India will be around 8-8.5 million tonnes. And that is something, which we should be able to do. The exit rate for that should be close to about upwards of 300,000 tons per month in Angul. Both Raigarh and Angul combined would do upwards of 550,000 tons per month.

Ashish Kejriwal: Okay, okay. And secondly, sir, in case of your overseas subsidiaries besides Oman, when do we expect any breakeven point coming in, in terms of your coal blocks of South Africa, Mozambique and Australia? Are we seeing any visibility that in the next one year.

Naushad A. Ansari: By and large, Mozambique on a stand-alone basis is able to sustain. And other units, which are there, for example, in South Africa, we are already in the process of looking at various options to improve that. Presently, I am not in a position to share what we are planning with you. But certainly, you will hear about it in two quarters, you will hear about it as to what is exactly is going on.

Ashish Kejriwal: And Sir in Australia?

Naushad A. Ansari: We will be starting Australia operation before this year-end. So that is something, which we should precede. And then the next issue will be to take the environment clearance for the balance of the mines and that is something, which we are continuing with. There are still some issues, which are being resolved. And for Australia, also, we are looking at some strategy by which it can be on an independent basis, but presently, we are not in a position to discuss about that.

Moderator: Thank you. We will take the next question from the line of Abhishek Poddar from Kotak Securities. Please go ahead.

Abhishek Poddar: I have two questions. One is regarding the blast furnace ramp up in fourth quarter. You will have about 0.7 to 0.8 million tonnes of extra volumes to be sold in this quarter. So just wanted to understand what our readiness is to be able to market that volumes and which are the regions in the country you are looking to market that extra volumes?

Naushad A. Ansari: If you look at the Angul Mills, we have primarily the plate mill as well as the rebar Mill and as you might also be aware that we are doing quite well. In fact, we have penetrated into various export markets as of now for the plates. And so therefore, our marketing team as well as the export team is very actively engaged in this. And we are quite confident in terms of the plate as well the rebar. We actually have been not making much of rebar, primarily because the margin there is somewhat less. But once the production capacity increases, we should have no difficulty in producing that rebar and selling it.

Abhishek Poddar: Okay. So second question is regarding the Tamil Nadu, the Tamil Nadu State Electricity Board had filed a petition for the additional revenues of CERC, based upon which some booking of revenues has also been done. So what is the stage of that? And when do we expect a verdict on that?

Bharat Rohra: The verdict on that is expected to be declared towards the end of this month because the entire hearing process is done. And we are awaiting final verdict, which is expected towards the end of this month.

Moderator: Thank you. Next question is from the line of from Pallav Agarwal from Antique Stockbroking. Please go ahead.

Pallav Agarwal: Sir, I have a question on the pellets price, given that during the quarter international pellet prices were strong and you did not have iron ore prices moving up to the same extent. So did we see any expansion in the iron ore pellets spread in this quarter?

Naushad A. Ansari: In terms of production, yes, we certainly are pushing towards higher pellet production. There is one balancing act, which we need to really do. We need to install test filter so that we can increase the production capacity marginally.

As of now, we are in a position to make close to about 22,000 tonnes per day, which we can increase to about 25,000-26,000 by putting this. So that work is already on, and we should be able to do that very soon. The benefit of putting new equipment most likely will be in the next quarter.

- Pallav Agarwal:** Okay. So just trying to understand this quarter's profitability would have been had by better spreads in pellets. Is that correct understanding of steel EBITDA in this quarter?
- Naushad A. Ansari:** I do not think that it is that big a difference, which you are talking about. And now the prices have gone up, but we also had lots of contracts, which are already there in place, and therefore, the impact of that could come in this quarter.
- Pallav Agarwal:** Okay. Also on the warrants issued on preferential basis, so when will the money come in for these warrants? And what price as per the SEBI formula what will be the pricing for these warrants?
- Naushad A. Ansari:** As on date, it is already there in this particular quarter.
- Pallav Agarwal:** So this is 25% of the warrants or all the money would have come in?
- Naushad A. Ansari:** Yes, yes. 25%.
- Pallav Agarwal:** Okay. Then if you could just tell us what the pricing is, what were the warrants priced at?
- Naushad A. Ansari:** It was about 140..
- Pallav Agarwal:** Thank you Sir.
- Moderator:** Thank you. We take the next question from the line of the next question from the line of Jaikishan Parmar from Angel Broking. Please go ahead.
- Jaikishan J. Parmar:** Thank you for the opportunity. As you know, JSPL has captive power of 1,634 megawatt. So how much has been used for the domestic iron and steel making process? And like how much excess capacity will be available to monetize? And what are the options available to company to monetize excess capacity in the captive power plant?
- Bharat Rohra:** In two parts, first of all, the installed capacity, which is 1,600 megawatts out of we are utilizing 300 megawatts in Angul, 300 megawatts in DCPD and another 300 MW in Raigarh. That adds up to 900 megawatts.
- Now in a captive power plant, the utilization is dependent upon the steel plant usage. So we are right now having a surplus of about 700 megawatts to offer to others.
- The government has come out with a concept of a group captive power plant. And we are trying to convert this excess capacity into a group-captive mode, and we are working on it. And maybe, soon enough in the next few quarters, we should be able to achieve some of this capacity into group captive mode.

Jaikishan J. Parmar: Sir, can you tell me how much out of 700 megawatts will we be able to monetize in the next few quarters?

Bharat Rohra: We are talking to various users. And right now, discussions are on with about four users for 250 megawatts of captive consumption.

Jaikishan J. Parmar: Thank you.

Moderator: Thank you. We take the next question from the line of Atul Tiwari from Citigroup. Please go ahead.

Atul Tiwari: Sir, my question is on the coal supply situation, and it is not specific to the company, but because you are a large buyer of coal. Sir what exactly happened? So over the past two, three years, we have seen pretty sustained increase in Coal India's production. Is it acceptable that it had been disrupted for sometime by rains, etc? But then now we are in November and the rainy season is behind us, and still we have shortages. So why the sudden talk of coal shortages? That is one. And the second thing that is if you look at Coal India's dispatch numbers, et cetera, the year-on-year growth still by and large has been quite good for the company as a whole. So why this sudden shortage? If you could share your thoughts on that. What exactly has happened on the ground?

Naushad A. Ansari: You see, this is all a subjective discussion. And our feeling is that Coal India has suffered due to various reasons. First of course, the heavy monsoon that we had this year and then there were some mines, which were closed due to environmental issues. There were two mines in the vicinity of our Karnal project, which was a shut down notice due to environmental reasons, and one of them was closed for three weeks, another was closed for five weeks.

So when they close down and restart, the production again has to ramp up and that has affected the production in the previous quarters. Otherwise, year-on-year, as I said earlier in my opening remarks, the production has been better as compared to the entire year last year.

But only in this quarter, due to these few reasons, their production has gone down. Moreover, NTPC has been the biggest beneficiary of coal allocation from the coal companies due to the government's inclination towards supplying power to NTPC and the government sector. So the private sector has got ignored, and that is why there is such a hue and cry in the private sector for coal availability in this month of September and October.

Atul Tiwari: Okay. And Sir, one follow-up on that so these higher power prices on exchanges that we are seeing, to your mind -- is it only because of coal shortage? And as a result, when the coal shortage gets resolved, are these prices likely to fall back again to the previous levels of INR 2.53? Or is there some demand uptick as well?

Bharat Rohra: The high prices of the exchange happened during the festival season, which is the normal phenomenon every year. Around the days of Dussehra up to Diwali, the exchange prices always go up because every utility wants to have power supply to their cities and towns.

Immediately after Diwali, they have stopped buying and the prices have come down to a level of Rs.3 to Rs.4. I do not mind them going to the range of less than Rs.3 now because in the last few years, power companies have been generating and charging for power at a variable costs. And their variable costs, they were considering only cost of coal, but they were ignoring even interest investments. Of course, JSPL has been honoring its interest payments all along, but there are various generators who have been ignoring interest payments and they were willing to sell on coal cost. Now with the banks coming down strictly on them to repay their interest obligations, I do not think any generator will go down below this Rs.3 threshold level.

Atul Tiwari: Thank you.

Moderator: Thank you. We take the next question from Abhijit Mitra from ICICI Securities. Please go ahead.

Abhijit Mitra: Just have a follow-up question on Angul. So now that the ramp up of blast furnace has happened and it was in operation for at least 1 month in the quarter, the expectation was that the startup cost would impact the results, probably in Q2 and Q3. The impact has not been visible in Q2 understandably so because of higher pellet spread, that's what the earlier question highlighted.

But from hereon, as you see the operations of Angul ramping up, what kind of cost efficiencies you can extract from current levels? Whether you have been able to get the energy benefits that you have been highlighting for operations of the new furnace? And to what level of profitability improvement should one expect in FY2019 as Angul ramps up in full? That is point #1.

Second question I had is on the plate mill operations for the quarter so some of the competitors have been reporting exceptionally high performance from that region, in particular. So was Angul's Plate Mill kind of closed or not operational in the quarter?

Naushad A. Ansari: Right. So let us look at the blast furnace. The benefit of blast furnace, once you ramp up the production, let us say close to about full capacity is that the coal rate comes down very, very substantially. And at that point, you are also able to inject the PCI, these two factors lead to very substantial decrease in the cost of hot metal. And so what is likely to happen once the BOF starts and we ramp up the blast furnace to a capacity close to about 9000-10000 tonnes per day hot metal, then the coke rate which is much higher as of today should be able to come down to level of 350-360 kg/tonne of hot metal and rest of it would be in PCI. Therefore, we are expecting a decrease in the price at least in the range of Rs.2000-Rs.3000 per tonne.

Abhijit Mitra: From what you have operated, say, in Q2 FY 2018, right?

Naushad A. Ansari: Yes. And going forward, because BOF also has its own advantages, so we certainly expect that will also add up to the benefits that were point #1.

You mentioned about the plate mill in Angul. Certainly the plate mill in Angul has been operational, may not be at full capacity, but certainly it has been operational because Angul's plate mill is one of the most modern plate mill that is helping us in exporting the material and making the material to the world standards, so to speak, and then that's how we are able to export quite a bit, and this material is quite in demand.

So going forward, obviously once our cost base comes down and we become more competitive because of the blast furnace ramping up and the BOF startup, you will see that Angul Plate Mill production will also jump to a much bigger number compared to what we have had.

Abhijit Mitra: Okay. So what would be current utilization, if you can help? I know it is a data question, but if you have it, it is fine. Otherwise I will get it from Nishant.

Naushad A. Ansari: Nishant will forward those numbers.

Moderator: Thank you. We take the next question from the line of Yash Doshi from SBICAP Securities. Please go ahead.

Yash Doshi: So I just wanted a clarification on the Angul ramp-up. So you told that the exit rate for Angul will be close to 3 lakh tonnes per month. So I assume that you should have factored some of DRI as well and as we ramp up the DRI going into Q1 of next year, we will see further ramp up. So is my reading correct?

Naushad A. Ansari: If you look at the blast furnace capacity, it will go up to, 9,000-10,000 tonnes per day and that can give us a capacity of BOF close to about the same. So the entire thing will not go into the BOF. About 7,000 tonnes will go through BOF route and rest of it will go through NOF route. So you are absolutely right that at that point of time, we will require certain amount of DRI. And that is what we had said. We said that in Q4, we also plan to start our DRI.

Yash Doshi: Thanks Sir.

Moderator: Thank you. We take the next question from the line of Ritesh Shah from Investec Capital. Please go ahead.

Ritesh Shah: So my first question is if you could please highlight what is our gross debt, net debt currently, debt repayment schedule and if possible, if you could give some breakup of that you have indicated Sir?

- Naushad A. Ansari:** So as far as repayment is concerned, in FY 2018, on a stand-alone basis, we are talking about Rs.1,000 Crores. And on a consolidated basis, it will be about Rs.1,800 Crores. And in FY2019, it will be again Rs.1,000 Crores. And on a consolidated basis, it will be Rs.2,300 Crores. Your next question is that what would be the debt level. So the debt level will be around Rs.45,000 Crores.
- Ritesh Shah:** And Sir net debt?
- Nishant Baranwal:** This is the net debt we are talking about.
- Ritesh Shah:** Okay. And Sir in FY2018, how much of repayment has already been done sir, out this 1000 and 1800, which you just stated?
- Naushad A. Ansari:** We have paid about Rs.550 Crores on a standalone basis.
- Ritesh Shah:** Is it possible to give a broad breakout of capex Rs.1,800 Crores and Rs.1300 Crores you have indicated for this year and next?
- Naushad A. Ansari:** Yes, primarily, majority of it will be in Angul, for example, out of Rs.1,800 Crores, next year, it will be Rs.1,400 Crores in Angul. And 400 will be maintenance and the replacement of major parts and so on. And similarly, in 2019, it will be about Rs.900 Crores for Angul and Rs.400 Crores again for maintenance.
- Ritesh Shah:** Okay. And Sir this Rs.1,400 Crores will go towards the DRI refurbishment that you are doing or is it towards something else?
- Naushad A. Ansari:** It will be all for projects which we have started, there are retention moneys which are required to be paid. So this money is required primarily for the projects, which are already ongoing.
- Moderator:** Thank you. We take the next question from the line of Amit Dixit from Edelweiss.
- Amit A. Dixit:** Just couple of questions. One is on the judgment passed by Honorable Supreme Court on Odisha illegal mining. We have not made any provision so far. So I mean, just wanted to get an update on the case, because Supreme Court wants to call us again for hearing?
- Naushad A. Ansari:** The Sarda Mine hearing is on the 21st of this month, and we are waiting for the result to have some direction as to which way it is going to move. We are very hopeful because our case, we believe, is quite strong.
- Amit A. Dixit:** And the second question is on deleveraging, Sir. Deleveraging has been one of our endeavors, and we have sold oxygen plants in the last quarter. So any target, net debt that you have? And are

there any noncore assets that you would like to deleverage in the next couple of quarters, or maybe until FY 2019?

Naushad A. Ansari: So let me say that there are several options that we are working on. But as of now, we are not really going to discuss any of those because everything is work in progress. So this is not really the right time to discuss that. Once we come to some kind of finalization, then we certainly will let you know.

Amit A. Dixit: But sir, any target net debt-to-EBITDA or some metrics like this that you would like to share?

Naushad A. Ansari: The one target is the repayment schedule with the banks that we have agreed to. So that is something that we are certainly going to adhere to. And the other is that despite increasing our total production, we have also decided that we are not going to increase this Rs.45000 Crores loan debt base.

Moderator: Thank you. We take the next question from the line of Gautam Bahal from Mauryan Capital. Please go ahead.

Gautam Bahal: It has to do with what you mentioned about the exit run rate per month for domestic steel, Raigarh and Angul combined. You mentioned 550,000 per month, which is about 6.6 million tonnes, right? For the run rate as we sort of look up which the quarter ahead, if all goes to plan, how do we expect to exit FY 2019 in terms of run rate, if you can give us some flavor for that?

Naushad A. Ansari: We mentioned that in FY 2019, our target is something like 6.5 to 7 million tonnes. So that is something which we believe we will do.

Gautam Bahal: Okay. Once the ramp up keeps going on, and then as you mentioned, the operating leverage that ticks with the likes of the lower coke rate and things like that, the current EBITDA per tonne is INR 9,500, is there a lot of upside to that as we ramp up?

Naushad A. Ansari: The fact is that this EBITDA depends on several factors. One will be, obviously, how quickly they're able to ramp. The other is how well we're able to manage our costs and third of course, is the market forces to the kind of NSR that is going to happen.

Now what is in our control certainly is the production as well as the cost working. We have taken up several initiatives to make sure that our cost base really comes down. These initiatives include the inventory management and cash cycle improvement. These initiatives also include efficiency in our operations. And those are the factors, which we believe will give us almost a similar kind of results going forward, even if the market drops.

Gautam Bahal: Sir, what I am trying to get to is the Rs.9,500 sustainable all else equal? And if so, if all else is equal, your operating leverage should make it a lot higher, right, going forward?

- Naushad A. Ansari:** Yes, true. I mean, as long as prices remain similar, yes, certainly, that's something, which is definitely possible.
- Gautam Bahal:** Thank you.
- Moderator:** Thank you. We take the next question from the line of Ashish Kejriwal from IDFC Securities. Please go ahead.
- Abhishek Poddar:** So my question is, are we also facing some kind of issues related to procurement of coking coal as one of our competitors are having it?
- Naushad A. Ansari:** What kind of issues do you mean?
- Abhishek Poddar:** In terms of procurement, rake availability, railway rakes availability?
- Naushad A. Ansari:** Yes. Of course, as you are aware that most of the rakes have been diverted for supplying the coal to the power plant. So therefore, all these steel plants and all the other producers are having this difficulty of getting the rake not only for the coal, but it is also for the iron ore movement and pellet movement. So it is certainly an issue and it is almost like a daily struggle to get that. But by and large, railway has been cooperating with us and we do hope that going forward, the situation will improve further.
- Abhishek Poddar:** But do you expect this to improve from December onwards? Or do we think that it will take some time thereby impacting production for the fourth quarter?
- Naushad A. Ansari:** As far as we know, railway took a decision to divert most of the rake for power plant coal. This was supposed to be over by the end of October. But of course, it has taken a little longer, so I'm very hopeful that by this month, certainly the situation should improve substantially.
- Abhishek Poddar:** And secondly, I did not get your answer in one of the questions when you were talking about group captive power plant that they are trying to convert into group captive mode. How does that work actually, that surplus 700-megawatt power plant?
- Bharat Rohra:** It is a concept, which the regulation has permitted that any industrial house can buy equity into somebody else's captive power plant and become a co-owner of that power plant. On that basis, we have got interest from a few companies and we are taking that interest forward because it is to our benefit.
- Abhishek Poddar:** Okay. And you are expecting this to be finalized by fourth quarter?
- Bharat Rohra:** By the end of this fiscal year.



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Abhishek Poddar: Okay. And any sense that we can get on how much it can be monetized? Any rough sense will do.

Bharat Rohra: No. They will have to buy equity into this and then we will give them power at a reasonable rate. And then they will not have to pay the charges, which the utilities charge them. If any industrial house buys power from us, the utility puts on them, and some cost subsidy charges. But in a good captive mode, those cost subsidy charges will not come on them. Thereby power will become cheap for them and we will have a buyer. There is no monetization involved. Only thing is this portion of the equity. Right now, we are targeting about 300 megawatts to be on this group captive mode.

Nishant Baranwal: Thanks all for joining us on the call today. With this, we like to end the call. I will pass it back to Abhishek.

Abhishek Poddar: Yes, we thank for joining the call from Kotak Securities. Over to you Janice!

Moderator: Ladies and gentlemen, on behalf of Kotak Securities, that concludes this conference. Thank you all for joining us. You may now disconnect your lines. Thank you.