"Jindal Steel & Power Limited
Q2 FY2019 Earning Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Jindal Steel and Power Limited Q2 FY2019 Earnings Conference Call, hosted by Investec Capital Services. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ritesh Shah from Investec Capital Services. Thank you, and over to you, Sir!

Ritesh Shah: Thanks, Lizaan. Good afternoon everybody. On behalf of Investec Capital, I welcome you to Jindal Steel & Power 2QFY19 conference call. We are delighted to host the management for the discussion for the quarter and the business outlook. I will hand over the call to Nishant.- Head Investor Relations at Jindal Steel & Power Ltd. Over to you Nishant!

Nishant Baranwal: Thank you, Ritesh. Good day, everybody. Thanks for joining us on our financial results conference call. We have with us today, our CEO, Mr. Ansari; our CEO for JPL, Mr. Bharat Rohra, and our CFO, Mr. Deepak Sogani. Without taking much time, I would request Mr. Ansari to give his opening remarks. Thank you very much.

Naushad A. Ansari: Thank you, Nishant. Good afternoon everyone. I am very pleased to share the results for this quarter with all of you.

The second quarter is a monsoon quarter in India, and this quarter is not suited for the logistics as well as for the steel production because the material gets wet. The turnover has gone up on a year-on-year basis for the standalone JSPL by 87% to Rs.6849 Crores, the EBITDA has gone up to Rs.1452 Crores up by 85%. The crude steel production on a standalone basis has gone up by 46% up to 1.3 million. On a consolidated basis the turnover is up by 63% to Rs.9,982 Crores. EBITDA is up by 61% to Rs.2207 Crores, and the production is up by 27% to 1.67 million tons.

In this period the spread between the raw material and finished products came down a bit, despite that, our performance has been reasonably well. The cost push has been there because of the iron ore and coking coal prices going up including the exchange rate impact but we have covered a lot of ground by increasing our production ramp up at Angul as well as by cutting down our costs substantially. Also in Q2, our Angul performance as far as iron making is concerned it has gone up by about 10% compared to Q1. And the steel making has gone up about 17% compared to Q1. So the ramp-up is happening reasonably well.

The pellet production also went up by 2% year-on-year basis to 1.62 million tons in this quarter. We have utilised more pellets ourselves and sold less compared to competitors. Also, we have exported more compared to sale in domestic markets.

In Oman in this quarter, the Sultanate of Oman has given us some additional gas for our DRI production. Earlier our capacity used to be about 1.5 million tons per year, and we used to produce about 1.43 million tonnes because adequate amount of gas was not available. Now with the additional gas, we can increase our capacity. We took a shutdown for a month for the DRI to modify the entire process so that it becomes suitable for the higher rate of production.

Earlier we used to produce between 180-185 tons per hour, but now we have the capacity to produce 220-225 tons per hour, and that production has already begun. In the Middle East, the spread has come down substantially between the scrap and the finished products. At one point of time, this used to be close to $230 for Turkish rebar, which has now come down by almost $60.

Mozambique has produced 0.5 million tons in the last quarter, and it continues to ramp up. In Australia, we have produced around 40k tonnes per month on average which makes it approx. 115000 tons for the quarter. Overall, overseas business is doing reasonably well, despite the shutdown in Oman.

Going forward, the prices which had come down a bit, the possibility of them going up is very visible there, both in India as well as in Middle East.

The flat products have remained okay. According to world steel, the overall growth is between 1.5%-2%. And as far is India is concerned, in the last quarter the demand went up by about 7.5%. Despite some issues related to the shortage of funds in the market, the demand is continuing. We are very hopeful that in the second half our performance will be far better compared to the first half.

In this first half, we have seen reduction in the imports from South Korea,Japan and others, primarily because of the exchange rate, which has been adverse for them.

Having said that, now I will hand it over to Mr. Bharat Rohra, so that he can talk about our power business.

Bharat Rohra: Good afternoon, ladies and gentlemen. The second quarter of 2019 for JPL has seen a steady performance, in spite of the quarter being a monsoon quarter, where the availability of coal from the mines is a serious constraint. JPL has done well to maintain a comparative performance over the previous quarter. Generation in the quarter has been 2,427 million units, which is identical to the generation in the corresponding quarter last year. Turnover has increased from Rs.878 Crores to Rs.911 Crores, primarily because of higher margin on the prices prevailing in the market.

The EBITDA has slightly gone down to Rs.302 Crores as against Rs.345 Crores in the corresponding quarter last year but has only marginally decreased from Rs.314 Crores in the previous quarter. This reduction is solely attributable to the high pricing in auctions due to severe shortage of coal. The monsoon being over, the outlook in the near future over a horizon of a few years appears highly encouraging for the power sector, as capacity additions are reducing and demand is steadily increasing at a rate of 6%-7% per annum. The government's highly ambitious solar power addition plan has also not seen huge capacity additions. Hence the country's dependence on thermal power generation is here to stay for a very long time.

The power rates on the exchanges towards the end of Q2 have seen sharp spikes before Diwali. The strong rates are expected to be continuing till the general elections next year. Immediately after the general elections, we have the summer peak. So in the next 6-8 months, the situation should be good for the power generating companies.

With the high-power rates expected to continue, the benefits will be derived by the generators who have got adequate coal stocks. The position of coal stocks at a very large number of power plants continues to be critical, with stock levels remaining for less than just a couple of days. JPL in addition to its FSA allocations has made efforts to arrange coal from other sources and has recently bagged about 7.5 lakh metric tons of coal from auction conducted by SECL.

JPL has also started using a substantial quantum of coal imported from US, South Africa and Indonesia. We plan to further improve our stocks by such similar imports. In the long-term als bo JPL plans to bid for the coal mine auctions for commercial mining, and secure a sizable quantum through the same. The bidding for the commercial mining is expected to be announced soon for the power sector.

The availability of coal in the coming months is also expected to improve as we believe Coal India has given strict instructions to ramp up the mining from 1.5 million tons per day to 2 million tons per day, which is surely going to help the IPPs improve their performance.

With this optimism, I would like to hand over to our CFO for his comments.

Deepak Sogani: Good afternoon, everybody. The first commentary from my side is that in this quarter we have touched a consolidated revenue of around Rs.9,992 Crores for the first time, so that is an important milestone that we have achieved.

Angul ramp-up is happening quite well. The Angul blast furnace is now stabilizing at around 9000 tons per day auguring good production from Angul in the remaining quarters in this year, so that is one important milestone as well.

The third commentary is on the financial performance. Our consolidated EBITDA this quarter was Rs.2207 Crore, which was 61% higher on a y-o-y basis, and Rs.1452 Crores on a stand-alone basis, which is also 85% higher on a y-o-y basis. This was a monsoon quarter, but we have done better than what we expected.

We saw contraction happening in our EBITDA per tonne, partially due to the monsoon quarter. We were seeing bit of reduction on the NSRs on the long side of our business, so business was expected to be a bit slow in this quarter. Now we are seeing improved business outlook as we go forward into the first monsoon season.

In this quarter, we saw a total EBITDA per tonne contraction of almost Rs.2500 per tonne from Rs.13,846 per tonne in the last quarter to around Rs.11500 per tonne in this reported quarter. of which NSR reduction was around Rs.500 per tonne reduction out of this Rs.2500 happened on an account of some price reductions. Contraction in EBITDA per tonne happened due to higher input costs, in which iron ore and coking coal were the largest contributors.

But in this quarter, we are seeing that some of these costs are now getting partially reversed. So hopefully, we will be able to see a better outlook on the cost side as well. On the debt side, we are doing quite well in terms of our stated target. Our goal is that over a two-year period, FY2019 and FY2020, we want to reduce consolidated debt by around Rs.12000 Crores, and at the half-year end. Our net debt stands at Rs.41,605 Crores, v/s March 2018 net debt of Rs.42,375 Crores. Also on the reported net debt there is a foreign currency translation impact of Rs.1,475 Crores, which if eliminated, the net debt reduction from March up to September will be Rs.2,245 Crores. We should be able to reduce a similar amount in the second half. We are also trying to monetize Oman partly to reduce our debt. So we will come close to our annual target this year. The target is for two years, we are committed to deleverage by Rs.12000 Crores.

In the reported quarter, we had an exceptional profit of Rs.472 Crores, relating to early redemption benefits that we gained on some privately placed debentures. A conscious strategy to deleverage, we bought over some debentures, which we were able to buy at some discount. That led to this Rs.472 Crores of benefit. Against that, we also took some impairment losses relating to old projects of around Rs.216 Crores. So, net impact on account of the exceptional item was a gain of Rs.256 Crores. The reported EBITDA is prior to an exceptional income, so that is purely on the operational trend.

With that, I end my initial commentary. We are happy to take questions from you.

Nishant Baranwal: Before we start the questions, I would request everybody to kindly ask more strategic questions. We in IR, myself and Shweta, are always there to deal with the numbers and the data questions. With this I will request the operator to kindly start the questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Ritesh Shah from Investec Capital Services. Please go ahead.

Ritesh Shah: Sir, my first question is regarding your annual guidance, which was for 7 million tons for steel and 1900 MW for power. After first half, how do you see this number? And my second question is on any update on power, specifically, incremental PPAs and the status for Angul DRI unit?

Both these variables are likely to impact our second half performance as well so if you can please provide some color over here.

Naushad A. Ansari: As far as steel is concerned, our expectation from the Indian operations is close to be about 6 million tons. And Oman will be close to 2 million tons. So that is the kind of number as far as steel is concerned. For power, I will request Mr. Bharat Rohra to answer..

Bharat Rohra: Yes, Ritesh, our outlook for operating the units was about 1900 MW. But in the present quarter, we have been operating 1700 MW units, which are 2X600 MW and 2X250 MW, partially loaded due to the lack of PPAs. The 1900 MW would be coming towards the end of the year and the fourth quarter because that time, we are expecting that the coal situation would improve and so would the demand for power. As regards to your question about incremental PPAs, the quantum of PPAs remains the same as it was in the previous quarter. And long-term and medium quarter term PPAs have not come at all. Only short-term PPAs are coming for a month or two, and that is all that is there in the market. So we are eagerly looking forward to medium-term PPAs, which may come in the near future.

Deepak Sogani: And to add on, while we are expecting our standalone volume in India to be around 6 million tons this year, we are likely to exit in the last month at a run rate of around 7-7.5 million tons given the ramp-up that we are seeing in Angul, which is likely to happen over next two quarters. And even in Oman, this year outlook is around 2 million tons, but we may exit around 2.2-2.3 million tons there as well.

Ritesh Shah: Sir, this is without the Angul DRI standalone information that you indicated for India operations, right?

Naushad A. Ansari: It is correct, because we are looking at both the options. We had said earlier that we want to push the blast furnace close to about 10000-10500 tons per day. Right now, we have already touched more than 9000 tons per day on several days. Now, we can look at starting the DRI in the next quarter. Let me assure you, everything is practically ready; it is only a question of right time to start. There is no further preparation required; we can start at any time. But we just want to push the blast furnace to maximum capacity, before we really start the DRI.

Ritesh Shah: Right. Sir when you say 1900 MW in Q4, is it the exit run rate that we are looking at? Or is it the cumulative for the year that we should look at?

Bharat Rohra: No, the average at the end of the year would be in the range of 1700 MW. And towards the end of the year and the fourth quarter, we are expecting to start one more unit of 250 MW.

Ritesh Shah: That is helpful. I will join back in the queue as the questions are lined up. Thank you.

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

Atul Tiwari: Thank you Sir. Congratulations on the very good set of numbers and the details given on the debt and the cash flows. Sir, just two question, what was the consolidated capex in the first half? Sir for next year, the similar kind of capex numbers should be expected or even a lower number broadly?

Deepak Sogani: The annual guidance for capex stands at Rs.1500 Crores, which includes completion of the balancing projects in Angul as well as the regular maintenance capex of Rs.700-Rs.800 Crores. At the end of half year, we have around Rs.770 Crores of capex done, which is absolutely in line with our annual guidance For the next year, therefore, we are expecting reduction in the capex from the current business levels

Atul Tiwari: Sir, reverting back to the Angul plant, will we fire up the DRI and the coal gasifier sometime in third quarter or early fourth quarter. What is the sense on raw material availability, especially the quality and the quantity of coal that is needed? Because a few years ago, we had an issue on those fronts and because of this, plant had faced problems.

Naushad A. Ansari: We have got some linkage for the coal gasification plant. And we expect that coal to be made available to us sometime from December and early January. On top of it there may be some shortage. We have identified sources both from imports as well as from domestic sources, which will be able to provide for the balance quantity.

Atul Tiwari: Sir, just in broad terms of the total required coal quantity for the gasifier, how much is covered under this linkage?

Naushad A. Ansari: Roughly about 60%-65%.

Atul Tiwari: Thank you.

Moderator: Thank you. The next question is from the line of Rajesh Lachhani from HSBC. Please go ahead.

Rajesh Lachhani: Thanks for the opportunity. Sir, my question is with regards to overseas mining assets. If we do a rough calculation with the numbers of EBITDA, we see a profit at our South Africa and Australian mines. So sir, could you share these numbers, how has the profitability trended?

Deepak Sogani: Given the fact that the Indian operations are stabilizing now, as a management team we were able to focus much better on our international assets both in Africa and Australia in this quarter, Oman has been giving a stellar performance anyway. We have been able to improve our operating performance in both these jurisdictions to some extent. In the reported quarter, we have seen profitability increase from the African operations which have led to some benefits. We have also seen some improvements in our Australian operations. In addition to that, the Australian reported currency is Australian dollar and there were some foreign currency translation that used to come in while consolidating into the corporate consolidated reports. Rs.75-100 Crores every quarter for these foreign currency translated amounts in Australia were being expensed in the P&L. As per the audit opinion we have received in this quarter, these are now being set off in the balance sheet in the Australian book. We have seen this delta partly due to this particular foreign currency treatment, but a larger part of it is on account of the improved operations in both Australia and Africa.

Rajesh Lachhani: Sir, so can we expect these operations to remain profitable at the EBITDA level going forward as well?

Deepak Sogani: Africa is certainly promising much more than the current quarter. As far as Australian business is concerned, on a net basis, from an EBITDA point of view, it would certainly be positive. However, there is an interest cost etc. that comes in, around the cash flow basis Australia will take some more time to stabilize.

Rajesh Lachhani: Understood Sir. That is it from my side.

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

Amit Dixit: Thanks for the opportunity and congrats on a good set of numbers. My first question is on the balance sheet. We have seen EBITDA accretion in H1 to the tune of around Rs.4,400 Crores, but if you look at inventory and receivables have gone up to an extent. So it looks like almost Rs.3000 Crores of that has been used in funding working capital. And you are saying that debt level has also gone down. So just wanted to kind of reconcile these numbers? And is higher inventory a cause of that upward movement? Or do you expect it to go down as the year goes by?

Deepak Sogani: First of all, on the consolidated side, the working capital has gone up by almost Rs.2000 Crores. As you know we are trying to ramp up Angul, we are kind of deploying a separate cash flow to ensure that our Angul ramp-up happens as effectively and as quickly as possible, that is one reason. Second, in the monsoon quarter, overall business is activity was a bit less. So there was a bit of increase in the inventory levels on account of that monsoon quarter as well. Going forward, we are not expecting, at least on the remaining two quarters, a very significant increase over the current levels from the working capital. And therefore, we should be able to use our operating cash even better from a deleverage point of view.

Amit Dixit: Okay. So you mean to say that, that inventory increase that we have seen, some of it would be naturally unlocked because you will sell from Angul?

Deepak Sogani: Yes.

Amit Dixit: After successive quarters of growth, we have seen EBITDA declining in Shadeed due to lower production. Going ahead, what kind of EBITDA per tonne can we see from Shadeed, particularly because now the capacities are up and running and you have got a contract also in place at a good price, I believe, so any color on that?

Naushad A. Ansari: The spread between between the scrap and the rebar came down significantly in this last quarter. It used to be somewhere close to about $225-$230, and it came down by about $60-$65. This is based on the Turkish rebar price. If you look at the Turkish rebar, against a spread of $160-$163, their cost of production is close to $140. So they were making only $20-$25. Against that scenario, in Oman, when they were making about $80-$90, we were making close to $140-$150 Going forward, we expect that the rebar prices are going to go up significantly. We are also going to increase our production now because we have added a new caster in Oman, and the nameplate capacity is going to change from 2 MTPA to Rs.2.4 MTPA. Also we will produce more of metallics in-house rather than buying from outside. All in all, our cost is going to come down significantly. And the rebar prices are also expected to go up. So we certainly consider that the spread between our raw material and the rebar will be upwards in the range of $130-$150.

Amit Dixit: Great Sir. Thanks for the elaborate answers. Thank you and all the best.

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

Sanjay Jain: Congrats on the good set of numbers. My question pertains to Mr. Ansari, you talked about a cost pressure, because of the iron ore and coking coal prices going up and exchange related inflation. When I look at this quarter standalone numbers and divide the raw material cost with the production, I do not see raw material cost going up. Is this because of the product mix? Or are we going to see this cost increasing in the subsequent quarters?

Deepak Sogani: Sanjay, Deepak here. We need to perhaps have an offline conversation on the reconciliation of the numbers that we have given to you. But our computations show that on a whole in the reported quarter, our cost has gone up by almost Rs.2000 per tonne. We can walk you through the different elements.

Sanjay Jain: I want to know, how things will look in third quarter and fourth quarter? Are we are going to see some more costs increasing in the subsequent quarters?

Naushad A. Ansari: Actually, if you look at the iron ore prices, especially in Odisha, where we are affected the most, we have seen softening of the iron ore prices. The overall demand also might come down a little bit. Therefore, we do expect that the iron ore prices in Odisha, which had abnormally gone up should come down.

The coking coal price has also gone up significantly. And we really do not think that the exchange rate is going to be any more adverse than what it is. Therefore there shouldn't be any further adverse impact on the coking coal business. In the coming quarters, we would expect that this cost pressure will be much less compared to what it was in the last year quarter.

Deepak Sogani: Also Sanjay, Q2 is the lowest quarter in the year for the steel business. So we are very hopeful that on the business outlook side, we will see some price improvement, which should more than offset any raw material changes so we should be able to maintain the business and improve it.

Sanjay Jain: Okay, that is useful. What is the split between the merchants sales, which is like not medium-term and long-term of the total volumes.

Bharat Rohra: We are trying to be very selective in our merchant sales because of the paucity of coal. So whenever we get a conducive rate, which we have decided as a particular figure, we try to sell on the exchange. And in a quarter, not more than 10% of the sale is on the exchange, the rest of it is on the PPAs.

Sanjay Jain: Okay. Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Vineet Maloo from Birla Sun Mutual Fund. Please go ahead.

Vineet Maloo: Good afternoon. I just want to understand, when is our CGP plus DRI combination going to start? Is it from January when we will get this linkage running and we will be seeing coal from the linkage? What is the plan on that side?

Naushad A. Ansari: There are a few indicators that will take us to start the DRI. Obviously the coal needs to start coming from the linkage. Also, we want to push the blast furnace production to further higher levels. We have gone up to 9000 tons per day. We want to push it closer to about 10000 or so. Therefore, we expect that these should be completed by end of January. That will give us an opportunity to start DRI.

Vineet Maloo: So how is blast furnace production? Or is the targeted blast furnace production constrained for DRI and CGP? This is not exclusive, right? I mean it can happen simultaneously? I just want to understand what is stopping you from increasing production from this unit?

Naushad A. Ansari: The steel, which was made in quarter two, was almost 17% more than quarter one. The steel melt shop also has a ramp-up plan. It cannot happen immediately. As the steel making ramps up, we push more and more blast furnace and scrap metal there, that gets absorbed and those logistics go on. The metallics needed for the steel making right now is being fulfilled by the blast furnace completely. And it will continue to be done until we ramp up to 10000. And thereafter, the additional metallics will come from the DRI route.

Vineet Maloo: You talked about deleveraging over FY19-FY20 combined. Recently there was a press statement by Mr. Jindal, that from FY2021, you want to start a new Capex program of taking Angul capacity to 20 MTPA. What is your strategic thought process about starting to get into capex mode when the deleveraging process has hardly even begun?

Naushad A. Ansari: I think you are referring to a discussion, which took place in make in Odisha discussion. Right now we are not talking about any immediate investment. Our focus is totally on ramp-up, making money and deleveraging

Deepak Sogani: We have been reiterating as a management team our current focus is absolutely clear to sweat the assets everywhere and to improve our operations on the international side, and deleverage. From a strategic point of view, over a longer time horizon, we will have additional land, additional capability to build etc. Those discussions are in a different context and thinking and planning and then putting it down on paper and making it happen is a long drawn process. We are here to say that next two years our deleveraging is absolutely intact, and we are working towards it. And there is no real tangible plan to start doing additional and hard capex in the near term.

Vineet Maloo: This is precisely my point. So you are again reiterating what I said. For the next two years you have a very concrete deleveraging plan. Do you believe it is good enough that from the third-year onwards you will embark on capex program? I understand the strong possibility that you want to grow long term, but that sends mixed messages to investors that on one hand you are talking on deleveraging, preparing our balance sheet, increasing profitability. On the other hand, you are talking about large capex program?

Deepak Sogani: You have a valid point of view. Let me now try and kind of draw the distinction from a managerial point of view. As we said, deleveraging is absolutely the most important corporate objective that all of us are working towards. We are trying to do our capex in a very limited territory, we have been guiding our capex, we are saying that we are within our guidance, and next year's guidance on capex is also available. Having said that, on another front, the Indian steel industry is poised to cross 200-250 million tons, and there are different places where people talk about it. We are a very large player. We have a lot of stake in the industry. Amongst our different plants, we have a lot of making capacity available, so at some point in time, your discussions may become relevant but those are not on the radar at all at this point in time.

Let me clarify very, very abundantly, that our focus is absolutely the same as we have been reiterating to get this Rs.42000 Crore down to Rs.30000 Crores levels. That will be a very critical milestone for us, to keep the net debt to EBITDA basis below 3x levels. We are not embarking on any fresh large capex initiative at all. In due course, obviously, we will look at options available from a strategic partnership point of view, whether we need to balance it, but those are conversations which are far in future at this point of time. And I hope I am very clear on this matter.

Vineet Maloo: I appreciate that. Thank you so much.

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

Ashish G. Jain: Good afternoon Sir. You may have kind of referred to this earlier, but I joined a bit late. Can you just highlight a bit more about the deleveraging that you said and the target of Rs. 30,000 crores, what is the roadmap for that? And what kind of strategic asset sales we are looking in that?

Deepak Sogani: High level, we have been guiding for Rs.12000 Crores deleverage happening in FY2019 and FY2020 put together. While you were not on the call earlier on, we said that in the first half levels, we have already achieved deleveraging of Rs.2245 Crores, so we seem to be on track. This year another similar number can happen through operations in the second half. And in the next year through operations, we should be able to do Rs.6000 Crores plus, because our business volume will go up and we should be able to get better operating cash flows to make it happen. We are also trying to monetize Oman partially to create some more cash. So that is the larger strategy on the table. Operation is the crux, with some monetization and some improvement in our international performance.

Ashish G. Jain: Got it. Thank you so much.

Moderator: Thank you. The next question is from the line of Chintan Shah from Investec Capital Services. Please go ahead.

Chintan Shah: Thanks for taking my question. Can you give us an update on the SMPL mining case and also about the inventory of 12 million tons that is lying over there?

Naushad A. Ansari: Obviously, that is a matter where we are not directly concerned. We are hoping that this 12 million tonne of our inventory is certainly secure. And that it should be able to come to us early. Beyond that, we have no comprehension and commentary on this matter.

Chintan Shah: Okay. Sir, timelines or anything?

Naushad A. Ansari: This is the iron ore, which belongs to us. We have already paid for that. So it is a question of a little time as to when this material actually comes to us. As far as the mine is concerned, it is not something, which is directly concerned with us. So we are waiting for whatever judgments take place, and to make sure that we are able to get back our material, that is all our interest is.

Deepak Sogani: And you know further, I think based on the judgment that has come out yesterday, which we have also reviewed, our confidence that we will be able to get the benefit of the iron ore mines lying in the premises of SMPL will come back to us very soon is increasing. So we are becoming even more hopeful and confident that will happen in the near term. But we will obviously wait and watch.

Chintan Shah: I will come back Sir. Thanks.

Moderator: Thank you. The next question is from the line of Yash Doshi from SBI Capital Securities. Please go ahead.

Yash Doshi: Thanks for the opportunity. Sir, could you please throw some light on our rail business. I believe we won a rail order from Indian Railways, so what is the status of that? And have you delivered it completely during this quarter or are there still some lines left? And also there was recent report that Indian Railways is going to tender a global tender for passenger rails and we are not qualified for that, so can you please throw some light?

Naushad A. Ansari: The first order which we received was close to about 96,000 tons of rails from Indian Railway, and they had given us a delivery target for about 12 months which hopefully we should complete in five months only. A substantial portion of ~40000 tons has already been delivered to them.

As far as other tender is concerned, one is a tender from RVNL. They are also looking for a substantial quantity of rail, which is of normal standard specification, which currently the Indian Railways is using. And yes, you are absolutely right that we have mentioned to them very clearly that we have the capability to supply the entire quantity of about 400000 tons. The first order, which we have received from the Indian Railways is considered to be a developmental order. And as per their terminology, it requires about one year of running of operation of those rails, which we supply under the passenger and other mixed traffic to complete the qualification.

The other thing is that we have also exported substantial quantity of rail. And those rails also have been used for passenger traffic for more than a year but their requirement is that it could run for two years. So there are some qualifying clauses, which we think need to be really looked at. Indian Railway per se is also coming up with another tender, which is more like a head-hardened rail. And in this country, we have already made that kind of specification and exported it. I hope that clarifies a point, which you have raised.

Yash Doshi: Yes, thanks a lot. And my next question is, on last quarter we guided that the Oman free cash flow would be around Rs. 250 million, so after slight disappointment during this quarter, are we maintaining that? Or that would be lowered down?

Deepak Sogani: We had mentioned close to Rs.250 million EBITDA in Oman for FY19. The numbers in the last quarter were less simply because the spread was down. We will be in that range because the next six months are supposed to be much better than the first six months. And also, as I have explained to you, our cost of production will come down and our volume will go up. So these two will have positive impact

Yash Doshi: Okay. Thanks a lot.

Moderator: Thank you. The next question is from the line of Abhijith Vora from Sundaram Mutual Funds. Please go ahead.

Abhijith Vora: Sir, my first question is on the short-term PPAs. We are not seeing Jindal Power participating in any short-term PPAs recently. Is it solely because of the coal availability? And when you are saying the coal situation will improve, how concrete is this information? Does it give you confidence that you can now participate in short-term PPAs in Q4?

Bharat Rohra: Recently we executed a short-term PPA for Bihar, which was for two months, and it was in the morning off peak hours. Then there was another one we executed for UP. But primarily, we try to participate in the short-term PPAs at a threshold price that we desire because of the coal we have to buy from the auctions. The price has to be commensurate with the auction prices, otherwise there is no point burning coal, buying it at a price and selling it at the same prices. As regards to my optimism for the availability of coal, now the shortage of the monsoon, etc., is over, and there is a lot of pressure by the Ministry of Coal on ATCL and MCL to ramp-up their production. And we have recently seen auction of 15 lakh tons from Gare itself. I am sure that there will be more such quantum available in the forthcoming dry months. Then they are also coming up with auctions for captive use where JSPL would be participating. And if JSPL is going to participate, we are going to piggy ride with JSPL, and try to take the 25%, which has been recently permitted to be sold by the captive miners to any other user.

Abhijith Vora: Sir, my second question is on EBITDA per tonne for steel business domestic in Q2 is around Rs.11400 per tonne. What is the outlook for the remainder half of the year? How do you see the cost curve moving? And what is the threat to this number, Rs.11400 per tonne?

Naushad A. Ansari: Right in the beginning I did mention that the spread in Q2 between the raw material prices and the finished products had come down. And we are already seeing a softening in iron ore prices. The coking coal prices also are expected to at least not increase but maybe marginally come down. Also our annual ramp-up has a major impact on our cost structure. So as more and more PCI is injected, more and more coking coal is reduced, the requirement is reduced, we will keep cutting down the costs. So going forward, we are very hopeful that this EBITDA number will increase substantially compared to what it was in Q2.

Abhijith Vora: Sir this was despite price realizations not improving in October, November?

Naushad A. Ansari: There are two elements to it. One is the finished product prices remaining the same, and we cutting down our costs, then our EBITDA per tonne goes up substantially.

Abhijith Vora: Sure, sir. So the guidance on EBITDA per tonne will improve?

Nishant Baranwal: This is Nishant here. If I could inject here, we never give any guidance on EBITDA per tonne. Generally, because EBITDA per tonne is always a market-linked phenomenon but we have sight only on the volumes. That is in our hand and that we will always do.

Abhijith Vara: Sure Nishant. Thanks. Those were my questions. Thank you.

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

Amit Dixit: Thanks for taking my questions again. The first question is on pellets. It is very peculiar that last quarter saw a little turndown in pellets, where pellet prices were high but our external pellet sales were down. You explained that you them used for captive consumption. So will the trend continue going ahead? Will we be using more and more pellets in captive consumption and the external sales would remain just at the similar level as Q2? Or we are also thinking of maximizing the external sales of pellet by ramping up the plant?

Naushad A. Ansari: We will continue doing both. We want to run the plant at full capacityso we will keep pushing for higher iron ore output out of the pellet plant.. The other is, as we ramp-up Angul plant, the iron ore filling material needs will continue to go up. And therefore, there would be more usage of pellets. But at a certain point, of course, they will all be sold in whichever market is the best market. Currently, we see that the Indian market might be a little better than the export markets. But we will make sure that we keep meeting the requirements of our long term customers.

Amit Dixit: Okay. The second question is on Oman. We have been talking about monetizing the assets, so any progress on that front? And is there any timeline you have in mind for closing this?

Deepak Sogani: We are already kind of working really actively in Oman, on a project to carry out this monetization. Obviously the project is at a stage where we have not yet invested in another structure that will happen over a period of time. But only based on what we understand today, we are comfortable that we should be able to get some cash in the bag by the end of this financial year.

Amit Dixit: Is there any ballpark number you have set for Oman?

Deepak Sogani: There is no explicit target on that. We are trying to get deeper understanding of the market. And strategize on that. Eventually, we will want to monetize Oman and delever our Mauritius business, and eventually delever our consolidated balance sheet. That is the goal. Whether it will happen in one stage or more than one stage is a function of the market reception. The core objective is to deleverage Rs. 12,000 in two years. Within that, several initiatives are assumed and one of them is this.

Amit Dixit: Okay. Thank you.

Moderator: Thank you. The last question is from the line of Atul Tiwari from Citigroup. Please go ahead.

Atul Tiwari: Sir just one very quick question. So this Rs.11500 of EBITDA per tonne in India business, and now since then, the prices have recovered and the costs are under control, and you will obviously get a lot of benefit of operating leverage in the second half because of the improved volumes. Is it fair to assume that it goes back to the first quarter level of Rs.13500 in the second half?

Deepak Sogani: We are hoping that the performance will be better. There are a lot of uncertainties. We have to wait for the end results to play out. We have to wait for the cost curve to play out. But one thing that is certain is we will be able to derive significantly better operational efficiencies because of ramp up and our production costs should be more efficient.

Atul Tiwari: Okay Sir. Thanks a lot Sir and best of luck for the future.

Nishant Baranwal: Thank you. We would like to thank everybody for joining us on this call. For further questions, you can always reach out to us. With this, over to Ritesh!

Ritesh Shah: Thanks, Nishant. With that, you can close the call. Thanks all for joining.

Moderator: Thank you. Ladies and gentlemen, on behalf of Investec Capital Services that concludes today's conference. Thank you for joining us. And you may now disconnect your lines. Thank you.