# "JSW Steel Limited Q1 FY24 Earnings Conference Call"

## July 21, 2023

**Management:** **Mr. Jayant Acharya – Joint MD & CEO**
**Mr. G.S. Rathore – COO**
**Mr. Rajeev Pai – CFO**
**Mr. Ashwin Bajaj – Group Head, Investor Relations**

**Moderator:** Ladies and gentlemen. Good day and welcome to JSW Steel Limited Q1 FY24 Earnings Conference Call. 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 star and zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ashwin Bajaj, Group Head of Investor Relations. Thank you, and over to you, sir.

**Ashwin Bajaj:** Yes. Thank you Nirav, and a very good afternoon ladies and gentlemen. It's a pleasure to welcome you to our earnings call for Q1 FY24. We had our Board meeting for this quarter in Japan. Hence, we have with us today the management team joining us from there. We have Mr. Jayant Acharya, Joint Managing Director and CEO; Mr. G. S. Rathore, Chief Operating Officer; and Mr. Rajeev Pai, CFO. We'll start with opening remarks by Mr. Acharya, and then we'll open the floor to Q&A. So, with that, over to you Mr. Acharya.

**Jayant Acharya:** So good evening, everyone. We welcome you all to JSW Steel's Q1 FY24 results call. The macro environment globally has improved, as we can see from the pessimism which we saw at the beginning of the calendar year. The economy has been more resilient than what was expected, especially in the developed world. We have seen that the world bank has upgraded the economic forecast by 40 basis points. Declining inflation, lower commodity prices and lower energy prices have supported the growth.

There was an expectation that the growth would improve post China reopening at the start of the year, but that did not play out as was anticipated. However, there are some policy initiatives, which are expected from the Chinese government, which should support domestic demand. Coming to India, the India story remains very robust. The strong momentum continues, driven by business and consumer sentiment. Both services and manufacturing are doing well, and we see inflation moderating.

The manufacturing growth in India is benefiting not only from the manufacturing activities in India, but also from a supply chain realignment, which we see globally, which is favouring India. We see India becoming a preferred destination for investments and global capability centres. Growth is also very strongly supported by infrastructure and capex spend by the government of India and that is providing the foundation for an overall economic activity improvement. Increasing FDI and FII flows is coming into India due to a very strong positive India outlook going forward.

If you look at the global steel and the Indian steel production and consumption, global steel production fell by about 10 million tonnes, approximately 1.2% during the calendar year Jan to May '23. While China added production of 1.6%, which is about 7 million tonnes, the rest of the world degrew by 2.6%, which is basically about 17 million tonnes. The elevated production from China was unfortunately not supported by domestic demand, which was initially expected at the beginning of the calendar year. Therefore, the exports went up, and that remains one area of concern and monitorable for the global steel industry.

Having said that, the Chinese side has given their intent and they would like to cap the steel production to CY'22 level, which would effectively mean that in second half of this year, the production will get moderated and that would be a positive for the global steel industry at large.

Indian steel production grew by 13% in FY23, which was a very strong number. And in Q1 FY24, we have seen a growth of 10.2% in the demand to 30.3 million tonnes and 8.4% in crude steel production to 33.6 million tonnes.

For the year FY24, we expect the steel demand to be in the range of 8% to 9%, incrementally contributing to about 10 to 11 million tonnes to the demand, which should take the India demand to 130 million tonnes. India's rising capex and infra spend, as I just outlined by the government of India, the acceleration in manufacturing, the thrust on renewables and the general activity in terms of services and private consumption augurs well for the growth of the steel demand in India.

On the raw material side, we have seen that the coking coal prices, which had reached a high again in February and March have moderated and are now moderating into our costs in Q2. However, the higher coking coal prices of February and March flowed into our Q1 cost. But going forward, the softer coking coal prices will moderate our cost in Q2. Iron ore prices in India and internationally have not yet corrected in line with expectations of fall in the steel prices. We see some price corrections in India in the last quarter, but we feel that more correction would be coming in the coming months. And thereafter, the iron ore prices may remain range bound. Steel prices have corrected and bottomed out both internationally as well as in India, with the channel destocking more or less completed.

If you were to look at the JSW Steel strategy where we have created significant shareholder value in the past with total shareholder return of 23% CAGR over the last 5 years and 32% over the past 10 years. Our strategic priorities, which you can refer on Page 6 of the investor presentation is to continue to create for our shareholders and all stakeholders continued value. These include mainstreaming sustainability across the business, strategic growth with efficient capital allocation, cost leadership through resource optimisation and improved raw material security, enhanced value-added product portfolio with innovation and R&D and being future-ready through technology and digitalisation and the last lever of a strong financial profile and credit ratings.

JSW Steel is very well poised to be able to benefit from the India growth story, and we have outlined our expansion plans in Page 7 of the investor presentation. Our ongoing expansion plans in India will take our capacity to 37 million tonnes by FY25 via brownfield capacity expansion at Vijayanagar, BPSL and our expansions at JSW Steel Coated. Our next phase of expansion and vision to grow to 50 million tonnes remains intact. In the medium term, we expect to do our brownfield expansions at 3 sites at Vijayanagar, Dolvi and Jharsuguda, which would be at low specific investment cost and therefore will be very capital-efficient. With our project execution capability, we continue to be able to generate superior shareholder returns.

If you were to look at our results, at the backdrop of higher costs flowing into this quarter, a globally challenging environment supported by a good demand in India, JSW Steel has delivered a very good performance in quarter 1. Our crude steel production at 6.43 million tonnes grew by 11%. Capacity utilization at our Indian operations was 92% during Q1 despite planned maintenance shutdowns at few sites. JSW Steel consolidated steel sales grew 27% Y-o-Y to 5.71 million tonnes.

On a quarter-on-quarter basis, our sales volumes were down 13% on a very strong Q4 performance where we liquidated a strong inventory. Our share of export during the quarter was 15%, and we had the benefit of higher priced export orders, which flowed into the Q1. We also got a good product mix and geographical mix in Q1. Our value-added and special product component was 61%, which helped us to cushion the drop in steel prices.

Additionally, we were able to mitigate some part of the coking coal cost increase, which went into Q1. Our coking coal cost went up by $11/t to $285/t, but we were able to mitigate this coal cost through a better blend and almost neutralize this.

The value-added component of sales mix, better geographical mix and better export realization helped us to post better sales realization in the quarter and mitigate some of the costs which took place primarily because of iron ore and some part because of the coal. Our sales to renewable, solar and wind was up 7% Y-o-Y. Our tinplate sales grew by 42% Y-o-Y. Our branded sales grew by 47% Y-o-Y and our coated product sales grew by 31% Y-o-Y.

During Q1, our inventories went up by 330,000 tonnes. One of the reasons was due to channel destocking and weather disruptions in Western India because of the cyclone towards the end of the quarter, which impacted our shipments and some part of the sales in the western part of India. We expect our inventories to reduce in the coming quarters, and we expect the steel prices to be stable as we have seen in the past few weeks on completion of the channel destocking which has already taken place. We therefore expect that the Q2, will see a better demand going ahead.

On financial performance during Q1, you would have seen the results. Our revenue from operations at INR42,213 crores. Our operating EBITDA at INR7,046 crores went up by 64% Y-o-Y. EBITDA per tonne at INR12,345 was slightly better than INR12,151 in Q4. Our net profit at INR2,428 crores was up 189% Y-o-Y.

Net debt to EBITDA was better at 3.14x versus 3.2x in March 2023. Overseas operations have been better, primarily on improved volumes. We have seen Baytown volumes go up. Baytown delivered a good EBITDA of close to US$45 million. Ohio from a negative in Q4 of US$12 million, we are up to US$2.6 million positive. Piombino, Italy driven by good rail orders has delivered strong volumes and an EBITDA of EUR 18.6 million. With this, the overseas operations have contributed INR570 crores to the overall EBITDA.

We have got the necessary approvals for merging JISPL into the company, effect of which will come in Q2. The company has also completed the acquisition of National Steel and Agro Industries, and the merger of Vardhman and VTPL into JSW Steel Coated Products. Our expansion projects at Vijayanagar and BPSL are progressing well, and are likely to be completed in this financial year. We have incurred a capex of INR4,094 crores during the quarter. JSW Steel Coated Products has also commenced its production and commissioned the color-coated line in Rajpura of 0.25 million tonnes. This will further add to our value-added portfolio.

As a part of our strategy on decarbonization, we continue to make efforts to decarbonize through various levers, one of them being renewable energy, better energy efficiency, better process efficiencies, circularity in using scrap and any other kinds of waste and the best available technologies.

We would adopt the new upcoming technologies in hydrogen and carbon capture as the technology can be evolved and becomes commercially viable. However, as a part of the strategy, we will commence use of green hydrogen in our DRI unit in Vijayanagar on a small scale to see the efficacy and usability so that it can be scaled up in future as it becomes commercially and financially viable. We have contracted with JSW Energy for supply of this green hydrogen to our Vijayanagar steel plant. JSW Energy would be setting up a 3,800 tonnes per annum capacity of green hydrogen using 25 MW of renewable energy. The project would be commissioned in the next 18 to 24 months.

As we see the Q2, I would like to mention that Q2 in India will see stronger volumes, aided also in the coming quarters by capacity ramp up at BPSL and liquidation of the inventories which we have added in Q1. Benefits of the lower coking coal will flow through in the coming quarters in Q2 and will offset some of the price fall impact in the last quarter, which will flow into Q2 as well.

We see some of the impacts of the global headwinds as a possible impact on our U.S. operations, especially in Ohio. But in Baytown, we continue to expect to do well on improved volumes and demand led by the renewable sector. In Italy, we expect to do well in our operations and in terms of volume we will be supported by good rail orders both from the Italian government as well as from the export market. Therefore, going into the FY24 as a whole, we are confident that we'll be able to meet the guidance, both in terms of production and in terms of sales which we have made out for ourselves. We are happy to answer any questions, just one more small update on the mergers and acquisitions.

We have completed the acquisition of National Steel and Agro Industries during the quarter on receiving the approval of the resolution plan under the IBC. This will further enhance our downstream capacities by 350,000 tonnes and will also enhance our market presence in Central India. We have merged the entities Vardhman and Vallabh Tinplate with JSW Steel Coated Products. Therefore, our efforts to put all our coated business under JSW Steel Coated Products is taking shape, giving further thrust to a focused value-added portfolio to JSW Steel.

We look forward to any questions which you may have, and would be happy to answer the same. Thank you.

**Moderator:** Thank you. We will now begin the question-and-answer session. The first question is from the line of Amit Murarka from Axis Capital Limited.

**Amit Murarka:** Just on realisation, like generally what we've seen is that the spot pricing has been falling and in that context, the realization for Q1 seems to have done well. So how are we looking placed for Q2 on that front? And also, some colour on the auto contracts for Q2?

**Jayant Acharya:** The realisations, as we mentioned, have been supported by both a better product mix and a geographical mix in Q1. Our value-added component sales grew by 34% and as a percentage of total sales in Q1 was 61%, and that was supportive. We also had export orders from February, March, which came into Q1 in terms of execution, which were at better prices and that has also been supportive. So, in spite of a price correction in the market, we were able to balance our overall product and geographical mix in a way that we had a marginally better NSR sales realisation.

The cost impact to that extent, we could mitigate. Going forward into Q2, as we said, the coking coal costs in Q1 went up by US$11 to US$285. We expect that the benefit of the lower coking coal prices will now flow into Q2, which would give us a benefit of US$45 to US$50 per tonne, which would offset some of the price drops, which have happened in Q1, which will flow into Q2.

However, the volumes additionally in Q2 are expected to be better on better demand as we've seen today, although there is a monsoon impact, but we look forward to better demand, and we will also be able to liquidate some of the inventories, which have been held up at the ports. So, volume-wise, better, cost benefit flowing in will offset the price corrections which will flow into July to September quarter from Q1.

**Amit Murarka:** Could you give some NSR guidance like you gave for coking coal, similarly NSR, if you can?

**Jayant Acharya:** It's difficult to give an NSR guidance because markets will not be in our hands. But I think it would be fair to say that the cost benefit of the lower coking coal prices and some impact of the recent iron ore price reductions would flow into our costs and therefore, reduce our costs in this quarter. And that would essentially help the margins. So, the margins should be range-bound. And on an absolute number, things will improve since the volume is expected to be better.

**Amit Murarka:** Sure. And in terms of the power and fuel cost, generally again, energy prices have fallen. So, is there an expectation of, let's say, INR500-1,000 drop on that front as well?

**Rajeev Pai:** Yes. So, power and fuel cost is lower because of lower thermal coal prices and also natural gas prices. That's the basic driver of lower power and fuel cost during the current quarter.

**Moderator:** Next question is from the line of Alok Deora from Motilal Oswal.

**Alok Deora:** Just a couple of questions. So first is on coking coal. So, this quarter, we are looking at around US$45-50 less coking coal cost?

**Jayant Acharya:** Yes, we expect that Q2, the coking coal prices will be US$45 to 50 lower than Q1.

**Alok Deora:** Sure. And how much would be the impact of the lower steel prices which you mentioned will flow-through in Q2? So, some quantification if you can provide there?

**Jayant Acharya:** I couldn't understand your question clearly. Can you just repeat that?

**Alok Deora:** Yes. You mentioned that some of those correction in the steel price will flow to Q2, so which had happened in Q1, that will flow to Q2. So just how much would that be?

**Jayant Acharya:** As we said, the US$45 to US$50. So, our Q1 coking coal was US$285, which increased by US$11. We expect on this $285 a drop of US$45 to US$50 in Q2 in coking coal. Yes. So that would positively impact our cost.

**Alok Deora:** Sure. And sir, this export, you mentioned it's around 15% of the volume. This momentum in export will continue or because the global demand scenario is slightly volatile, how do you see the export proportion moving, going ahead?

**Jayant Acharya:** So, we would say that exports at this level, by and large, would continue. I would say, 15% plus/minus a bit will be the exports, so maybe 12%, what we had, 12% to 13%, which we had last year as a whole and has now been at 15% because last year was primarily impacted by the export duty. As you are aware, JSW Steel has a wide range in terms of customers as well as geographies to which we export almost 100 countries, 100 touch points, various product lines, which we do. So we would like to continue to do our exports and maintain our presence. And in the range of 15% exports is something which we expect will be there.

**Moderator:** Next question is from the line of Sumangal Nevatia from Kotak Securities.

**Sumangal Nevatia:** Okay. Sir, my first question is with respect to long-term capacity potential, which we've discussed on Slide number 7. There, I mean if you look at next 6 years, we are just talking about a potential of 13 million tonnes, which is just a 5% CAGR, and we've grown in the last decade much faster than that. So I just want to understand that, why? And on the same slide, we are talking about brownfield potential at each of our sites of 5 million tonnes each and also greenfield at Odisha. So why are we not including this capacity potential in our FY '31 target of 50 million tonnes? So just want to understand if there is something I'm missing here.

**Jayant Acharya:** Our current capacity, as you are aware, is about 28 million tonnes in India. And at Ohio, we have about 1.5 million tonnes of capacity in terms of crude steel production. We are adding 9 million tonnes of capacity in this remaining 2 years upto FY '25, which would take our capacity in India to 37 million tonnes, by and large. And we have a potential now to add in the medium term by 2030-31, capacities in our brownfield sites, which is at Vijayanagar, Dolvi and Jharsuguda, which is at a low specific investment cost, and that's why we would like to focus on these first.

So, we complete some of these, but we would start the greenfield growth maybe in some part in Odisha, the slurry pipeline is part of that. The slurry pipeline work has already started, as we mentioned last time. There would be, as we get clearances for the site, maybe the next step would be a pellet plant, and we will grow the Odisha site in a modular fashion. And we continue to look for new opportunities like what we have taken up, an Electric Arc Furnace at Kadapa in Andhra Pradesh, which will be a greener, lower emission carbon steel.

So, we have divided this into phases in a way to make it more capital efficient. So, the first medium term phase, as we call it, is 50 million tonnes. The greenfield site in Odisha will play out in the modular fashion. And we will continue to look at opportunities of completing these capacities and then taking up the next phase for the full greenfield expansion.

**Sumangal Nevatia:** Okay. So the part towards 50, the 50 figure is just for brownfield, right, that Odisha greenfield is not included in that?

**Jayant Acharya:** No, it's not included in that.

**Sumangal Nevatia:** Got that. Sir, one book-keeping question. Is it possible to share what is the acceptance number, both revenue and capital?

**Jayant Acharya:** What is the expected...

**Sumangal Nevatia:** The acceptances number.

**Rajeev Pai:** Acceptances -- revenue acceptances, we have US$2.6 billion, and capex acceptances are US$207 million.

**Sumangal Nevatia:** Okay. And sir, just to understand, I mean, as the coking coal prices are normalizing and correcting, should we expect this revenue acceptances to go down and consequently debt level to increase just because of this lower acceptances going into the future?

**Rajeev Pai:** Yes. Some part of the acceptances would go down because of the lower coking coal prices, but it will also result into an improved EBITDA. So, net of that, we will have some reduction in acceptances, which might have an initial impact on the debt.

**Moderator:** Next question is from the line of Vivek from DSP Mutual Fund.

**Vivek:** My question is on the inventories. You were talking about inventory destocking in India and excess production in China, where the local demand has not picked up. Do you see any, and you are confident about the inventories picking up, sales picking up in this quarter? So, do you see any signs of slowdown from Chinese production, which might help your exports? Or what is the situation in the domestic market, and that will also probably affect iron ore prices, if that logic flows right through? If you could give some color on, that would be useful.

**Jayant Acharya:** Yes. So, we are very positive about the India demand story. If you were to look at the infrastructure and construction growth which has been driven by capex. We are seeing growth in double digits in infrastructure. Even construction growth is expected to be 5% to 7%. Automotive growth is very healthy. We are seeing the engineering and packaging sector growth also in the range of 7% to 8%. The energy transition, as we discussed, renewables getting traction. We already have 176 GW capacity and 45GW of more capacity is likely to get added.

The manufacturing intensity is going up. Government initiatives announced on housing in urban and rural, both are taking traction. The road projects, which are now getting completed is very positive. Coastal growth as well as the road projects across the country. In the month of May, we have seen 50 kilometres a day, which is extremely positive. Not only will this add to the steel consumption, but we face the much better infrastructure for general improvement in economic activity.

The freight corridors are likely to add steel consumption. Metros, almost about 600 kilometres approved to start construction, 1,000 kilometres already under construction in various cities. So, we see good all-around demand in India. And, we are quite confident that the India story will hold up. The risk side, as you also mentioned is that a weaker China demand, which resulted in a higher export in the last half and up to June is something which we need to watch.

We are expecting that the Chinese declaration of capping the steel production to CY22 will be a positive and, therefore, will reduce the production in H2. And that, in general, should be a positive for the global steel industry at large. Having said that, we also see that the Chinese steel industry today from a margin perspective are quite thin. And therefore, the price seems to have bottomed out in the global prices as well. And going forward, we see that a lower raw material price would play in. And therefore, it would generally support the steel margins going ahead.

**Vivek:** Excellent, sir. Sir, my last question is in terms of the balance capex for the year, how much would that be in terms of rupees crores?

**Rajeev Pai:** We have communicated, India plus overseas spend of about INR20,000 crores spend for the year. For the first quarter, we incurred about INR4,094 crores in India. We are on track to spend the capex which we have committed at the beginning of the year.

**Moderator:** Next question is from the line of Amit Dixit from ICICI Securities.

**Amit Dixit:** I have a couple of questions. The first one is on the production side. We mentioned that in the quarter gone by, we had 92% capacity utilization due to maintenance shutdowns. I understand that there will be some destocking of inventory that will happen at our end. So, are we planning to take any maintenance shutdown in Q2? And what would be the capacity utilization for India operations?

**Jayant Acharya:** Yes, Mr. Rathore will answer you.

**G S Rathore:** Yes. In Q1, we had 92% utilization because a lot of shutdowns were planned, but the target for the year, i.e guidance is 26.34 million tonnes. We are very much on the target. For Q1, we have achieved 100% production target.

**Jayant Acharya:** So, the shutdowns were planned. Usually, in the first quarter of the year, you have annual maintenance shutdowns. And so that was something which is a part of the process. We don't expect any undue shutdowns, which is other than planned to impact our annual production. And therefore, we are quite confident that production numbers, which we have given in our guidance will be achieved.

**Amit Dixit:** Okay. The second question is more of a bookkeeping question. Is it possible to let us know to the cash flow from operations in the quarter?

**Rajeev Pai:** Yes, can you repeat the question, please?

**Amit Dixit:** Cash flow from operations for the quarter.

**Rajeev Pai:** Long-term surplus of INR264 crores from the cash flow. So what is the EBITDA, what we have got is incremental INR264 crores.

**Amit Dixit:** Sir, I couldn't hear you possibly. I mean, for the better part of your answer. Can you please repeat the answer?

**Rajeev Pai:** So, our cash flow from the operations, net of the long-term payments like interest and taxes, etc., was INR264 crores.

**Amit Dixit:** INR264 crores. And after that, there was a capex of INR4,040 crores?

**Rajeev Pai:** No. Cash flow, net of interest, taxes and capex.

**Amit Dixit:** Okay. So this is free cash flow more or less.

**Moderator:** Next question is from the line of Pinakin Parekh from JP Morgan.

**Pinakin Parekh:** Maybe you addressed this point at the beginning of the call, and I missed it. But there has been news flow about JSW being an interested party in coking coal assets of Teck. Now can you give us your longer-term view of how you see coking coal security and whether your capex plan includes spending on coking coal acquisitions going forward?

**Jayant Acharya:** Our strategy for raw material security remains one of our strategic pillars, and we will continue to look at iron ore security mostly within India. We have just won 6 iron ore mines in the recent auctions - two in Karnataka, two in Goa and two in Maharashtra. The mines in Karnataka and Goa, we expect to operationalise soon.

The ones in Maharashtra will be prospective and exploration will be involved as well. So that will take a little longer. But we will continue to look at the options which come up for iron ore mines in areas which make strategic sense for us and we'll continue to look for raw material security.

As far as coking coal is concerned, we have won two coking coal mines which would give us 1 million tonne of clean coking coal, which would be about 5% to 6% of our total requirement now. And we will continue to look for some more assets which may come up in India. And additionally, we are looking at good quality assets internationally, which may be available at a valuation which will be commercially and financially viable. So, we continue to look for those strategic assets in Australia, Canada and elsewhere. And as soon as we have any information, which we think we can share, we'll certainly come back to you.

**Pinakin Parekh:** Sure, sir. That's very helpful. Sir, my second question is on realisations going forward. Now as we look at the JSW's realizations of effectively 3 components. One is the spot HRC steel price in India. The second is the contracts. And the third is the export prices and export volumes. Now of these 3 components, we have a pretty good handle on domestic spot steel prices, which are broadly down around INR4,000 to INR5,000 from the peak. But how much of this could be offset by any contractual price increases, especially in autos? And how are the export prices and volumes trending? So what we are trying to understand is that would the realisation decline mirror the large spot steel price decline? Or should it be lower than this spot steel price decline?

**Jayant Acharya:** Lower than the -- sorry, could you repeat that last line?

**Pinakin Parekh:** Spot steel price. The realization decline should be lower than the spot steel price decline that we have seen.

**Jayant Acharya:** So, let me put it this way that the steel prices have bottomed out whatever price corrections we see which had to happen, have happened between the April-June quarter and a little bit in the beginning of July. And this, which will flow into Q2 will get offset by, I think, 2 factors. One is coking coal prices, which would flow in and benefit the cost, some impact of better iron ore prices, which we expect in this quarter. Some of that has just recently been announced, which would, to some extent, come in, in Q2.

So, the raw material cost benefit analysis, both for coal and iron ore will come. On the NSR or on the price side, the automotive price contracts are under negotiation. So, some of that will be completed in this quarter. It would, to some extent, support the overall average price for the quarter. What we primarily see is that the cost will probably offset whatever will be the negative impact of prices, that will flow into Q2.

**Moderator:** Next question is from the line of Abhiram Iyer from Deutsche Bank.

**Abhiram Iyer:** So just a quick question on the cash outflows that you mentioned. Now, given that your interest savings are around INR1,900 crores, could you please let us know what the working capital outflow was? Was it significantly higher? And is this expected to reverse course during the rest of the year? Because debt has remained flat, while there is about INR7,000 crores of cash flow that's gone out?

**Rajeev Pai:** Yes. So, investment in working capital was about INR7,800 crores during the quarter.

**Abhiram Iyer:** Got it. And is this level expected to reverse because of destocking activity, as you mentioned, going ahead during the second half of the year?

**Rajeev Pai:** Yes. So, this consists of 2 parts. One thing is the postponement of sales because of channel destocking plus exports impact because of cyclone and some general increase in the inventory. We expect the 330,000 tonnes increased inventory and the sales deferral to get liquidated partly in Q2 and Q3. To that extent, we expect that this working capital investment will come back. However, there will be some higher cost coking coal acceptances, which will get paid off during the quarter. So, to some extent, it will get neutralised by increase in debt by repayment of buyer's credits acceptances.

**Moderator:** Next question is from the line of Indrajit from CLSA India.

**Indrajit:** I have two questions. First, on coking coal. After the benefit in second quarter of US$45 to US$50, would it reflect spot prices? Or could we see further benefit in third quarter as well based on where prices are currently?

**Jayant Acharya:** The coking coal prices as we see today have been in the range of US$230 to US$235 for FOB Australia PLV. I think we are seeing this range going to maybe 220's and coming back to this range. We would say that coking coal may be range-bound in this situation. If that were to happen, I think, by and large, you might see more or less the entire benefit play-out in Q2, very marginal impact, if it doesn't change further down would go into Q3.

**Indrajit:** Sure. This is helpful. Second, can you give us some idea about what is happening in the import market? Are you seeing some bit of cheaper imports on China, some shipments being booked in India? Or do you see some cheaper imports arriving on Indian shores over the next couple of months?

**Jayant Acharya:** Imports in this quarter Y-o-Y have gone up. So, while it has gone down Q-o-Q, but I think we would keep an eye on this. What we see today, however, is that the domestic price of steel and the international price of steel are not very far off. So therefore, the incentive to import for better prices, that propensity is less. People would not like to take a risk to import something when the price gap is low. Therefore, while we keep a watch, especially on the zero-duty imports, which are happening, I feel that imports also will moderate a bit given the price environment where the domestic market currently is.

**Moderator:** Next question is from the line of Satyadeep Jain from Ambit Capital.

**Satyadeep Jain:** I have two questions. One on the longer-term capacity target of 50 million tonnes, is there a thought behind what could be the long and flat mix? Could we see more longs expansion beyond the current state of expansion? And typically, historically, we've seen greenfield projects take 10 years and there's US$1,000-plus per tonne of capital cost. Has something changed in the past few years? Or can we expect something similar for any greenfield capex?

**Jayant Acharya:** If I were to understand the question, are you asking the ratio between flat and long capacity?

**Satyadeep Jain:** One is on that the flat and long mix. Beyond the current state of expansion, which is largely flat, would you look at more long versus flat beyond this current phase of expansion? And then when you eventually look at greenfield, particularly it involves a long gestation period, 10 years, would you need to start putting capital to work now for that to commission, let's say, 10 years from now and a $1,000 per ton capital cost or has something changed in terms of gestation period for greenfield projects?

**Jayant Acharya:** From a flat to long percentage ratio, currently, we are at about roughly 25% longs. And as we go into our expansion up to 50 million, I think we will be in the range of 25%, maybe to 30% longs within the 50 million tonnes, which we propose to have. Regarding the specific investment costs, up to 50 million tonnes, as I said, our expansions of brownfield are low specific investment cost because some of the infrastructure and some of the facilities are already available in Vijayanagar and Dolvi, which we will be able to use.

So therefore, the efficiency of capital allocation there is better. Our effort will be to complete those first. We may parallelly look at starting some part of our Jharsuguda expansion, which is also a brownfield expansion. The greenfield expansion in some form, already started with some investments which we are doing in mining and the slurry pipeline. The slurry pipeline, which is a 300-kilometer pipeline is already on track. Basically, the expansions are going on. Investments have already been put on the ground and pipes are being laid as we speak.

So that will be the first step. The second step in the greenfield steel plant will be to get the environmental clearances, which had come under some approval issue, which now have been cleared from our side, the hearings have been completed. So, we expect that resolution to happen soon. Once that starts, then we would be able to start the greenfield steel plant in a modular manner. Maybe we'll start with the pellet plant, and then we will look at one unit of 5 million tonnes to start with and then we will scale it up to capacity over time. That is our plan.

Our specific cost of investment for a greenfield steel plant, which you are talking about $1,000 per tonne, which is some kind of a thumb rule. It will be difficult to comment on that as of now because costs 2 to 3 years down the line we will not know. But only one thing we can say is that we have been more cost-efficient in terms of our specific investment cost. So, we continue to hope to be more cost-efficient even in our greenfield steel plant at Odisha.

**Satyadeep Jain:** Second question on the debt levels, you're sitting at INR67,000 crores of net debt. And there are sizable acceptances right now, including acceptances, you're looking at INR90,000 crores odd leverage. I understand some of that may come off with lower prices and all. But when you look at some acquisitions, whether it is inorganic in steel or coking coal assets, is there a leverage target you would have to not exceed or maybe you would exceed the target or maybe acquire the entity, a promoter entity, like you've done with some of the other assets and then bring them on. What's the thought process behind maintaining that leverage and how you look at acquisitions?

**Rajeev Pai:** We have been communicating our leverage policy, which is net debt to equity of 1.75x and net debt to EBITDA of 3.75x. You would have observed that though the net debt has gone up from March to June, our net debt-to-EBITDA ratio has improved from 3.2x to 3.14x. As a policy JSW Steel is not following deleveraging policy, we want to participate into India growth story. So as we add the way we are currently adding 9 million tonne capacity in this year, there will be some increase in the debt.

But when we look at the ratio of net debt to EBITDA, that would be within our policy leverage ratios. So, we see these ratios are reasonable and have stood us good over the years including in terms of addressing any downturn, which has happened in the past. So, we don't feel our absolute amount of net debt is the relevant number, and we would continuously get guided by the leverage ratio, which we have communicated.

**Satyadeep Jain:** Just one more quick question on carbon trading, there's a proposal in India on carbon trading. Have you explored the possibility of maybe voluntarily buying carbon in India and exporting and using that to export to Europe under CBAM? Is that possible given we may have lower CO2 prices in India to start with?

**Jayant Acharya:** I think from a CBAM perspective, I think still discussions between various global partners are on. We feel that the decarbonization is an initiative which is common for the developed world and the developing world, but there are common but differentiated responsibilities. The developed world has to shoulder more since most of the emissions were done by developed world over time. The developing world has just started building their economic trajectory, and therefore, we feel that the identified path, the nationally determined contribution for each country, which is agreed with the Paris agreement should be honoured.

And that effort of discussion is on and engagement with the European Union is going on. Having said that, I think the carbon trading system in Europe, to some extent is there. In India also, we are looking at carbon trading systems, which would come. And once that comes in, we will certainly look at opportunities or ways to manage that to offset the impact of the differential carbon. Also, additionally, I think our effort in the medium term, as I said, is to very actively reduce our carbon emissions going forward.

In the medium term, through 5 levers, as we said, one, through renewable energy, already 1,000MW is under construction, 225MW is now on in Vijayanagar, and we will continue to look at additional renewable energies for all our locations to see that by 2030, our intent is to bring the thermal coal usage to as close to zero as possible. The second lever will be to improve our energy efficiencies within the system. So, any waste heat, any better use of gases, which we are able to do, we are putting in place various initiatives to make that happen.

The third lever is the process efficiencies. We are using the resources better. Beneficiation technologies to use lesser resources for a better output of steel are being looked at. The fourth initiative is basically circularity in terms of internal scrap generation and any waste which is getting generated including recovery from tailings, are being looked at. And the fifth is the best available technologies, which would be available to further decarbonize. These five steps in the medium term are economically and commercially viable and feasible.

And they would reduce the overall carbon emissions per ton of crude steel, and we are focused on seeing that it happens. Finally, we are doing the trial with the first hydrogen plant, which we said we are taking up at Vijayanagar. We will see how the trial goes and use that study to see how the hydrogen can be scaled up once the technology becomes more evolved and commercially viable.

**Moderator:** Next question is from the line of Tarang Agrawal from Old Bridge Capital.

**Tarang Agrawal:** Just a couple of questions from my side. One, if you look at the estimates of WSA for China, between the October '22 estimate and April '23 estimate, they're actually looking at about 25 million tonnes of additional demand from China. Now from whatever we've seen in the first half, things don't seem to be so rosy. So just wanted to get your perspective because in your opening remarks, you spoke about certain policy initiatives. So, standing now, how do you see that playing out? So that's number one.

The second is, there are quite a few capacities coming in from the steel players starting from FY24-25. So how do you see that impacting the price, especially for the flat segment? And third, in the last interaction that India had with the U.S., there has been some amount of duty reduction that we've seen for steel and aluminum. And given the price differential between Indian prices and prices there, if one were to adjust for freight and if there are carbon taxes, it would still be lucrative to probably supply from here. So just wanted to get your view.

**Jayant Acharya:** So first on the China side and WSA direction which they have given. So World Steel expected that the China demand would go up by 18 million tonnes or so and the rest of the world would go up by 23 million tonnes in this calendar year. While we feel that the rest of the world demand may still play out to be in that range, but the China demand growth of 18 million tonnes will probably be lower. That is something which we need to factor in on the overall number. So, our estimates are that the growth instead of additional 40 million tonnes which was given, about 2.3% growth, would be slightly lower because of the China demand situation.

But having said that, it is good to see that in spite of an export from China almost in the range of 44 million tonnes, which has happened in H1, the demand in the rest of the world has help up, and that grows to substantiate the fact that the rest of the world demand is able to grow well. So, the 23 million tonnes demand incrementally this year from the rest of the world will play out. And if the export from China reduces with the reduction in production, then that would be a positive as we go into the second half.

As far as your second question is concerned, I was not too clear, but I gather that you said U.S. and India are discussing on certain duty relaxations from India to U.S. and that would open up some markets. Is that what you asked?

**Tarang Agrawal:** Yes, from what I understand is, I think there was an imposition of about 25% duty on aluminum and steel getting imported from India in 2018. And there seems to be some amount of relaxation coming in from there?

**Jayant Acharya:** So the safeguard of 25%, which was imposed is prevalent today as well. And there was a discussion that certain lines and certain products they are looking at exempting, so we would look forward to some direction and clarity on this once this is decided between both the countries. That would certainly be a positive and open up further avenues for trade with U.S. And certainly a positive to the market. Yes.

**Tarang Agrawal:** Yes. So just to add on to this. I mean, typically, how much would be the logistics and carbon cost, shipping from India to the U.S.?

**Jayant Acharya:** If you were to have a full vessel, I think that the cost of logistics would be in the vicinity of $40 to $45, I would guess. The cost of shipping is also going down. My guess would be around that much. I'll have to check basis numbers, but that should be the approximate cost.

**Tarang Agrawal:** Sure. That's helpful. And my last question was on the capacities coming in from various players. How do you see that impacting the prices for flats, especially?

**Jayant Acharya:** I would say that if you were to look at the medium-term capacities of flats, which are coming up, they would be not as much, as a matter of fact in the next year, FY25, I expect probably even if the capacity comes up from some of the competition, and our own capacity in JVML, we may have at the most anywhere between 10 to 12 million tonnes of capacity addition, which would come. However, the ramp-up takes time. So therefore, if you were to look at a spread over 2 years, this capacity will get consumed in 2 years' time. I see the demand very much there.

As we said, incremental demand every year is now at 10 to 11 million tonnes and maybe a little better. So therefore, if you were to take typically even half of that is flat. So your demand of 5 to 6 million tonnes of flat demand would be there. And that is what will get met. As a matter of fact, that capacity which is coming up, will probably just be sufficient to meet the local domestic demand. So, with this capacity addition, I don't see a concern as of now.

**Moderator:** Thank you very much. I now hand the conference over to the management for closing comments.

**Jayant Acharya:** So, thank you very much. Just to sum up. I think JSW Steel in Q1 has done quite well and in the circumstances been able to manage the margin almost equivalent to Q4. Going forward, we expect that we will be able to meet the guidance, which we have given both for production and sales. We continue to be very optimistic about the India demand across sectors, and that will be very positive for our capacity expansions, which are in process, which will play out between the next 1 to 1.5 years of about 9 million tonnes. And that would incrementally benefit the overall operations and performance of the company.

So, we are very well placed to take advantage of the growing Indian market. And we continue to focus on our capacity growth, not only in terms of volume, but in terms of the overall product mix and see that we have relevant product mix in our system, which is required where there is a demand in the country. So, thank you very much for your time. And any questions you may have, our Investor Relations will be happy to clarify. Thank you very much again.

**Ashwin Bajaj:** Thank you ladies and gentlemen for joining us today, and please reach out if you have any further questions. Thank you.

**Moderator:** Thank you. On behalf of JSW Steel Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.