



“JSW Steel Limited Q2 FY2020 Earnings
Conference Call”

October 23, 2019



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MODERATOR: GOOD DAY, LADIES AND GENTLEMEN, AND A VERY WARM WELCOME TO THE Q2 FY2020 EARNINGS CONFERENCE CALL OF JSW STEEL HOSTED BY IIFL INSTITUTIONAL EQUITIES. 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, PLEASE SIGNAL AN OPERATOR BY PRESSING “*” THEN “0” ON YOUR TOUCHTONE PHONE. PLEASE NOTE THAT THIS CONFERENCE IS BEING RECORDED. PLEASE NOTE THAT THIS CONFERENCE IS BEING RECORDED. I NOW HAND THE CONFERENCE OVER TO MR. URVIL BHATT FROM IIFL INSTITUTIONAL EQUITIES. THANK YOU, AND OVER TO YOU, SIR!

Urvil Bhatt: Thanks, Ali. Good evening, everyone. On behalf of IIFL Institutional Equities, I welcome you all to the 2Q FY2020 Earnings Call of JSW Steel Limited. I will now hand over the call to Pritesh Vinay, VP Corporate Finance and Group Investor Relations at JSW Steel. Over to you, Pritesh!

Pritesh Vinay: Thank you very much, Urvil. A very good evening to all the participants, and we welcome you to the Second Quarter Fiscal 2020 Results Earnings Conference Call of JSW Steel.

We have with us today the management team of JSW Steel, represented by the Seshagiri Rao, the Joint Managing Director and Group CFO; Dr. Vinod Nowal, Deputy Managing Director; Mr. Jayant Acharya, Director, Commercial, Marketing and Strategy; and Mr. Rajeev Pai, CFO.

I am sure you have had the chance and opportunity to go through the results, the press release and the presentation, which is already uploaded, and the links of that would be in your inbox.

We will start with a few minutes of opening remarks by Mr. Rao on the broader sector, market and performance of the company. And post that, we can open up for Q&A.

With that, over to Mr. Rao!

MVS Seshagiri Rao: Good evening. Happy Diwali to all of you and your families. This quarter is one of the toughest and challenging quarters we have seen. This moment of the escalating trade tensions got reflected by USA across the global economy and disruption and supply chain disruptions, which also we have seen or experienced in the last quarter.

The reaction by various governments announced by Central Banks in response to the escalating trade tensions, was to ease the monetary fiscal policies. Because of the massive stimulus that has been announced in China, that created a huge disruption in the steel market and then the entire world, in line with the falling demand, exited the production,



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whereas China continued to produce more that is why more of raw material demand from China. The import of iron ore has gone up by 10%, almost 65 million tonnes. So more demand for iron ore, and at the same time, more demand for coal. So this all led to distortions in the market where raw material prices were not corrected, whereas steel prices got corrected because of the slower demand other than China if you look at it.

Adding to that in the domestic market, there was a credit squeeze from the banking system, the weak government spending, falling consumer demand and also prolonged monsoon. They are 4 major reasons where the demand in India also started showing decline. As for JPC numbers, even though April, the consumption number was over 6%, which came down less than 1% by September. So steadily, constantly, it has been falling, the steel demand in India.

In this challenging circumstances, exports from the FTA countries is once again a concern, went up to 65% in this quarter. In spite of these challenges, if I look at JSW Steel numbers, we have produced 3.84 million tonnes, which is lower by 8% year-on-year and lower by 3% quarter-on-quarter.

So I will just continue where I left as regards to the numbers of JSW Steel in the backdrop of what is happening globally and also in the Indian markets. The production number was 3.84 million tonnes. Sequentially, you would find a drop of 3% and a year-on-year drop of 8%. The drop is visibly attributable to monsoon impact at Dolvi and also automotive slowdown, which impacted the Salem unit and also some planned shutdown at Vijayanagar unit because actually, we moderated the production in the last quarter, in line with the market conditions. The sales standalone number was 3.6 million tonnes, which is sequentially lower by 6% and in the year-on-year, it is down by 9%.

So when the domestic demand was weak, what we have done is we have pushed more quantities in the export market. That is why exports went up by 68% year-on-year basis. And it was 31% of the total sales for exports to 1.09 million tonnes. When the global steel prices fell, in line with that, domestic business also corrected. Domestic steel prices fell by 16% and costs we tried our best to manage our costs. Cost came down by 9% on a year-on-year basis. The EBITDA margin per tonne of Rs. 7,768 per tonne.

In these results, there are three important points, which I would like to highlight. One is, there are four wholly-owned subsidiaries, which got the approval from NCLT for merger into main parent company that is JSW Steel. So this approval has come, and we have given the effect of the merger in the books of accounts, but they are all wholly-owned



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subsidiaries. So consolidated numbers, there is no change. But the standalone numbers, you will see the impact of merger of these 4 subsidiaries into JSW Steel. These four companies are Dolvi Minerals & Metals Private Limited, Dolvi Coke Projects Limited, JSW Steel Processing Center Limited, JSW Steel Salav Limited. These are four companies which got merged.

The second important point was the earlier 3.3 million tonnes steel planned at Dolvi was enjoying the sales tax incentive, the GST incentive after GST was introduced. That incentive scheme expired on 5th of August 2019. In the meantime, as you are all aware, we expanded our capacity from 3.3 million tonnes to 5 million tonnes. So the incentive relating to that expansion project, we received the in principal approval. In fact, this project expansion was completed in May 2016, but we have not booked in the books of accounts the benefit of this incentive due to non-receipt of this approval from the Ministry of Industry, Government of Maharashtra. So that approval has been in place in this quarter. So the amount accruing from May 2016 up to 30 September, 2019 amounting to Rs.512 Crores is accounted in this quarter. To give a breakup, out of this Rs.512 Crores, Rs.466 Crores was pertaining to the period before March 31, 2019, balance Rs.46 Crores belonged to this half year.

So this incentive relating to this 3.3 million tonnes to 5 million tonnes will continue in the future also. The next piece, the corporate tax reduction, which was announced through tax ordinance in September 2019, the company evaluated the availing the MAT credit, which is available in the books of accounts and also the outstanding deferred tax liabilities. So the company has the option to move to the new tax regime. We have evaluated this new tax provisions for the subsidiaries and also to the main company. In the case of 2 subsidiaries, that is JSW Coated and also JSW Industrial Gases Limited, we have opted to go for new tax regime, that is 22% plus surcharges. In the case of other companies, considering the MAT tax credit that is available, we decided to continue in the existing tax regime but with clear intention that we will move to the new tax regime after availing the MAT tax credit that is available today.

The intention is move to the new tax regime, then the deferred tax liabilities earlier provided, the differential temporary differences on account of change in tax from 35% to 25% effective tax rate, that can be reversed. So we have taken the reversal of extra deferred tax credit that is available in the books of accounts as on September 30, 2019 was reversed. That amount was Rs. 2,150 Crores on standalone basis; on a consolidated basis, Rs. 2,207 Crores.



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With that, if you look at the overall EBITDA for standalone company is Rs. 2,796 Crores, which is 18.01% EBITDA margin. And the subsidiaries of Coated, ARCL, JSW Industrial Gases have done well. They contributed Rs.271 Crores in aggregate. The overseas companies continued to drag. The U.S. Plate and Pipe mill showed an EBITDA loss of \$11.2 million, which includes \$3.5 million of inventory losses. U.S. Plate and Pipe mill was doing well at the EBITDA level in the past. Again, this quarter, they came into red because the steel prices in the U.S. have come down so the capacity utilization was lower. Number two is inventory losses, which we had to take in this quarter. Now the capacity expansion, the modernization of the Plate and Pipe mill which we were doing, the first part was completed. So the benefits we expect will start coming in from third quarter onwards in the Plate and Pipe mill. The coal mines, which we have it as a positive EBITDA of \$1.8 million, the Ohio Junction Facility had an EBITDA loss of \$31.6 million, including 13.17 inventory losses. Italy had EUR 6.9 million quarterly loss in the last quarter. So all in aggregate, Rs.332 Crores was negative from the overseas companies, after netting out this, the EBITDA on a consolidated basis was Rs. 2,731 Crores.

The profit after tax on a consolidated basis was Rs. 2,536 Crores, considering the benefit of the deferred tax write-back. In the light of what we have done so far in the first half, so we also reviewed our guidance, considering the outlook for the second half. So we thought it is not possible to recover the quantities of volumes which we have lost in the first half. So accordingly, we felt that we should adjust the guidance approximately to the extent of around 3%. So we will be achieving 97% of our guidance, assuming that the second half, we will repeat whatever we have done in the second half of previous year, that is 2019. With that, we will be achieving 97% of the guidance, both in terms of production and in terms of sales volume.

The next point is capex. Capital expenditure, we have given the guidance of Rs. 15,700 Crores cash outflow in the current financial year. So we have also reviewed. We are focusing to complete the project at Dolvi that is 5 million tonnes to 10 million tonnes. There is other special projects and also certain downstream projects like cold rolling mill unit at Vasind, second, tin plate at Tarapur, and also second coke oven plant at Vijayanagar. There are some projects which we identified. Those projects, we can slow down the implementation and push it for next year. That is why the capex, overall cash outflow, we are restricting it in this year to Rs. 11,000 Crores and I guess Rs. 15,700 Crores guided earlier.

The net debt of the company as on September 30, 2019 was Rs. 49,640 Crores. The effective interest rate was 6.82%. The revenue acceptances were \$1,252 million. The capital



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expenditure acceptances are \$447 million. Debt-to-EBITDA is 3.23x. Debt-to-equity is 1.36x.

As regards to acquisitions, Bhushan Power & Steel and also Vardhman Industries Limited, both are in NCLAT, the litigations are going on, whatever modifications we suggested, the hearings are continuing. The case in BPSL is posted for 25th of this month. So hearings will continue. In the case of Vardhman Industries, all the arguments are completed. The judgment is reserved. Asian Color Coated Limited we have been declared as a successful bidder and resolution plan has been submitted to NCLT.

As regards to outlook, I will spend just a few minutes. Government has announced a lot of initiatives in the last one and half months. They said they will be investing total Rs.100 lakh Crores, Rs.20 lakh Crores per annum in the next 5 years, which is very positive for steel industry if these investments happen. Similarly, they also announced a lot of financial sector stimulus, the NBFCs or capitalization of banks or Rs.50,000 Crores for improving exports, Rs.1,45,000 Crores for tax concessions. There are lots of things which government has done. But if I have to talk about specific to steel industry, they have done anti-dumping duty on the Galvalume on China and South Korea and Vietnam. They have also introduced the steel import monitoring system, which will really help the industry to monitor the imports which are coming in either in the form of defectives or in the form of circumvention of the BIS standards and also to improve as far the industry is concerned, if some of the products which we are not able to produce, to work on that, to improve on that. So this is also a great initiative from the government.

Draft scrapping policy is put on the website by the Ministry of Steel for consultation with all the stakeholders. So this will really improve the usage of steel if scrapping policy is finalized. Whatever we are hearing from the government is government is very committed to finalize this policy as early as possible.

On exports, the remission of duties and taxes on export of products in U.S. MEIS from January 1, 2020 is also a welcome step. The last one is the iron ore mining auctions. Whatever mines that would be expiring on March 31, 2020 Karnataka has taken the first initiative. They have done the auctions. JSW Steel could secure 3 mines and now Orissa government has moved in the same direction. They have put 20 mines in auction. Out of that, 5 mines are for captive purposes. So we have a chance to participate in these auctions, so the fear really that we all used to have that there will be a disruption. I think government is working to ensure that there is no disruption on the supply of iron ore



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Considering these factors, we expect the second half demand will pickup. We are seeing already some green shoots in the market. By this revival particularly in the TMT demand, volumes are moving in that particular segment and also solar appliances, the piping sector we are seeing some green shoots. Then there is credit flow started coming into the industry. So all these together, we expect the demand will not be lower than 5%. So it will be at least 5%. If you see the JPC numbers, this is giving 6 months. Overall demand is around 5%. So it will, if not improve, at least, it will not fall below this 5%. As regards to our performance in the second half, one is achieving this 97% of our guidance. The second is, the cost savings further, particularly the coking coal prices, which are corrected. So that benefit will come in the second half of this financial year.

In addition to that, our captive iron ore mines, where we produced 1.25 million tonnes in the Q2 and the overall first half, we produced around 2 million tonnes. In the second half, we expect 2.5 million tonnes to 3 million tonnes to produce, so with that, more and more captive iron ore will be available to us. So with that, cost reduction benefit will come to the company. The second half will be better than the first half. Existing our performance of the first half, we have calibrated the capex. We will live within that capex expenditure.

With that, I will close my comments and any clarifications that we had to give. Thank you.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Amit Dixit from Edelweiss. Please go ahead.

Amit Dixit: Thanks for the opportunity Sir. I have a couple of questions. The first one is with respect to realization, if you can break up realization in domestic and exports. I mean how much it went down by in this quarter, sequentially? And how much do you expect it to go down in Q3?

Jayant Acharya: So the overall NSR, I think, drop Y-o-Y is about 16%, and on a sequential basis is 9.5%. This is the blended NSR which we are talking about. So in terms of a price indication going forward, as we indicated, the price has bottomed out. We do not expect any further drops in the pricing. At the same time, the advantage of lower coking coal will flow in into the next quarter as well as cost advantages from our own iron ore. So therefore, the spreads, to that extent, will be improved, so bottoming out of price and maintenance of price going forward.

Amit Dixit: Sir, is it possible to break it in the decline in export and domestic?

Jayant Acharya: It is difficult to give you that at this point. So that is a different area. So it is not exactly the like-to-like products, which we would be exporting or selling in the domestic.



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Amit Dixit: Okay. Sir, second question is on the capex deferment. While we have deferred the capex for downstream projects, as I understand, these are typically low payback period kind of projects, and that would have given you a higher premium. So I just wanted to know, understand or rationale for deferring these because do you suspect demand to be tepid for these kind of products or there is something else.

MVS Seshagiri Rao: No. If you look at CAL project at Vasind, where we are spending almost close to Rs.600 Crores, this particular project is anyhow to be commissioned in the next year. It is not in this year at all. So therefore, this particular project, instead of spending money in this year we just said we will do it in the next year. So commissioning will happen in the following year that is 2021 and 2022. It is not the question of potential demand is going to come down, but temporarily, yes, demand is weak. In the meantime, the PLTCM plus galvanizing lines, Galvalume lines, color coating lines at Vasind, Tarapur, are all getting commissioned. So those will get stabilized. Then by the time, this mill will be ready. Similarly, Tinplate. Tinplate 1 is already commissioned. So we are stabilizing the quality and pushing the volumes in the market. So the Tinplate 2, even if it is delayed for some time, by the time Tin 1 gets fully established in the marketplace, Tin 2 will be ready in the following year. The same story, even at Vijayanagar where we are seeing color coating lines will postpone for some time. So whatever we are already commissioning, by the time they get established, they get stabilized, the other projects will come in. It is only a postponement from this year. It is not that we have stopped these projects.

Amit Dixit: Thanks for the clarification. I will come in the queue.

Moderator: Thank you. The next question is from the line of Anuj Singla from Bank of America. Please go ahead.

Anuj Singla: The first question is for Mr. Acharya. So Mr. Acharya, you mentioned that the domestic prices have kind of bottomed out. So is it fair to assume that we are already lower than the antidumping duty level, \$489, maybe effectively \$500 level. Are we below that level already in the spot market, Rs. 35,000?

Jayant Acharya: So Anuj, \$489, which is the antidumping rate, you are right. So from that perspective, we are lower today, yes.

Anuj Singla: Sir, will it be also fair to assume that the price decline which has happened over the last quarter, not all of that has got reflected in 2Q? Some impact will come in 3Q as well? Will it be possible to quantify that?



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Jayant Acharya: So yes, the exit rate will be different rather than the Q2 average. But I think rather than talking about an NSR because we do not know how the quarter would show November, December, still could hold some potential. But I think on a spread basis, as I was explaining, that because of the cost benefits coming in on the coking coal, iron ore side as well as our own iron ore mines, additional volumes kicking in, we expect the spreads to improve.

Anuj Singla: Okay. Sir, on that count only, coking coal prices, the spot levels have come down somewhere around \$40 to \$45 from the peak levels over the last quarter. So will it be possible for you to guide how much of that benefit we have captured in 2Q, and what can flow in 3Q?

Jayant Acharya: So we have captured about \$10 of the coking coal benefit in Q2 and about \$25 to \$30 will flow into Q3.

Anuj Singla: Wonderful. Lastly, one question for Mr. Rao, Mr. Rao, is there capex guidance you can give for FY2021 as well? What kind of capex number we should be expecting?

MVS Seshagiri Rao: We will be able to really give exact numbers in the month of May 2020. But until that time, whatever numbers we have given earlier, that number will stand for FY2021. Then we will calibrate that number when we finalize our yearly numbers.

Anuj Singla: Okay. And any comments on RCEP, Sir, upcoming agreement? Has there been any progress with the government on excluding steel out of that agreement?

MVS Seshagiri Rao: Whatever we hearing from the government I think as and when we interact with them, that they are more keen to sign RCEP. But as it has been reported in certain press, that they wanted to take care this time that enough precautions are there while signing the RCEP that in case the imports into India of any product goes up substantially, automatic triggers will come in, and there will be duties, duties will come into force. That type of mechanisms, so they would like to build in. I think they are moving in that direction. But how far they will be successful, we are not sure about it. But they are negotiating very hard. So my view is they will sign the RCEP with certain percussions.

Anuj Singla: Wonderful. Thank you very much Sir.

Moderator: Thank you. The next question is from the line of Sumangal Nivetia from Kotak Securities. Please go ahead.



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Sumangal Nivetia: Good evening. Thanks for the chance. Sir just a clarification on the capex. So our total capex of around Rs. 49,000 Crores, that stays. And this year, we pushed 4,700 to next year. So are we talking about almost Rs. 20,000 Crores to be spent in FY2021?

MVS Seshagiri Rao: No, it is not in that number. Out of the total Rs. 48,000-and-odd Crores of capital expenditure program, when we really look back to what were the commitments that have been made, where commitments are not made, there are Rs. 7,000 Crores commitments yet to be made. So therefore, we are focusing on those projects where commitments are not made. So the Rs. 7,000 Crores, still we have a chance that we can push some of these projects to 2021-2022. So therefore that is why we are giving we are commenting that we will come back with the numbers for FY2021 in the month of May. It is not that we are increasing the number of 2021.

Sumangal Nivetia: Okay. So I mean, after this Rs. 11,000 Crores in 2020, out of 49 we will be left with around Rs. 24,000 Crores? Is that the right number? Rs. 24,000 Crores?

MVS Seshagiri Rao: Yes.

Sumangal Nivetia: Okay. All right. And, Sir, the CRM that we were expecting to commission October onwards so that is witnessing around 6 to 9 months' delay. Is that the right understanding?

MVS Seshagiri Rao: We said we will do in fringes. So the CPL line is already commissioned. So that is also in advanced stage. So galvanizing lines are there they are getting commissioned, if not in this quarter, early next quarter, so very good progress in regards to CRM.

Sumangal Nivetia: Okay, understood. Okay. Sir, one question with respect to prices, is it possible to share what would be the exit price versus last quarter average price?

Jayant Acharya: No, it will be difficult to give you that. But as we said that the exit price is something which we feel has bottomed out because of various reasons, which we discussed in the call. So going forward, since the supply chain has destocked inventory to a reasonable extent and the international antidumping duties are prevalent on some of the products, we do feel that there is a possibility of prices stabilizing with a positive bias in Q4.

Sumangal Nivetia: Understood. Just one last small clarification with respect to incentives, so first quarter was around Rs.36 Crores, and only Rs.10 Crores is for the second quarter. That is the right calculation?

MVS Seshagiri Rao: Yes. It is correct.



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Sumangal Nivetia: Quarter average should be closer to 10 Crores to 15 Crores or it would be lumpy towards few quarters?

MVS Seshagiri Rao: No, no, it will not be lumpy. Because when Dolvi Coke Projects Limited which got merged into main parent companies, there were certain input credits outstanding, which are not set off. That is why that got set off in the Q2. That's why the overall incentive came down in the Q2 relative to Q1.

Sumangal Nivetia: Okay. So run rate is I mean, around Rs.140 Crores, Rs.150 Crores annually, right?

MVS Seshagiri Rao: No, we have to take on an average around Rs.25 Crores per quarter.

Sumangal Nivetia: Understood, Rs.100 Crores.

MVS Seshagiri Rao: Rs.25 crores per month.

Sumangal Nivetia: Rs.25 crores per month. Okay.

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

Ritesh Shah: Thanks for the opportunity. Sir, my first question is, in the press release, we do say that we have sought certain reliefs on Bhushan Power. Sir, can you please explain what reliefs have been sought and what it would mean to us going forward?

MVS Seshagiri Rao: Well, there are certain modifications which were done by the NCLT while approving the scheme. Those modifications, we took it up with the NCLT that they are not acceptable. Number one, relating to prevention of money laundering act, we said the specific relief is required, particularly in the context of where the banks have reported there was a fraud. So we said we wanted specific relief. That is one, which is not granted by the NCLT, so we took it up with the NCLAT. The second one is the resolution plan does not talk about any closing adjustments. Closing adjustments, what I mean to say regarding working capital. By working capital is way of increase in net current assets. That kind of provision is not there in the case of Bhushan Power & Steel, so we offered the annual base basis, including other things. Whereas the NCLT has asked and modified the resolution plan and said that the profit that accrues during CRP period, they use the word profit, that belongs to the lenders. So we did not have any idea what it meant. Is it closing adjustment? Is it EBITDA? Is it a profit? Whatever it is, it cannot be pertaining to the lenders. It has to be wanting to relief an applicant. So we took it up with the second issue. Then the third issue is relating to the



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resolution plan. There is certain clarification which we needed, relating to the litigations that would come in from any other authorities. That one is not very clear in the resolution plan approval. So we wanted a clarification on that. There are three areas, where basically we went back to the NCLAT.

Ritesh Shah: Sir, is it possible for you to quantify, first, on the second point that you said, that is a working capital than net current assets? That is one. And secondly, you indicated under PMLA act. So is it something that JSW Steel and the promoters are entirely seeking basically ring-fencing of all the liabilities or anything of that sort?

MVS Seshagiri Rao: No, we are not looking at promoters of erstwhile promoters of Bhushan Power & Steel. What we are basically looking at JSW Steel and the corporate debtor that is Bhushan Power & Steel. We want immunity to these two whereas it was clear as regard to JSW Steel, but it is not clear as regards to corporate debtor, that is Bhushan Power & Steel in the future. And that is what we wanted. As regards to the second question, which you wanted we also do not have information like how much EBITDA accrued during the CIRP period, how much current assets that are there right now in the company. We have no idea on that. So whatever amount that could be, we have a claim on that as for the resolution plan. It does not belong to the lenders.

Ritesh Shah: Sir, would it be fair to assume, until we have clarity on these 3 aspects, basically we would not take a hard stance to go ahead on Bhushan Power, just related with the lower capex guidance, so I just wanted clarity on this first.

MVS Seshagiri Rao: Yes. It is clear from our side that we are committed to this acquisition, subject to the resolution plan as we submitted gets approved.

Ritesh Shah: Okay. That helps. Sir, second question is for Jayant. Sir, you indicated that we do not expect prices to drop. Now prevailing steel prices are already below ADD. We are trying hard for exports, but exports if it is difficult. I am not sure of the system inventory numbers. But even if I look at our inventory data at standalone, it has actually bumped up by nearly 15 days. So how should we look at one is our inventory days? And secondly, inventory at the system level and consequently impact on local pricing.

Jayant Acharya: So inventory is a channel, Ritesh, I think, has moved down because over the last few months, people have been destocking and we exposed in the last quarter, in general, if you look at the industry data, if you look at JPC numbers, it shows sequential increase in exports from India by 75%. So the inventory from the channel, I think, in this last quarter, has



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substantially corrected. That is one. Secondly, the imports in some of these products, I think, have gone down. The stock levels have gone down and the risk appetite for making fresh imports is limited given the ADD in some products and the current weak economic scenario on the other side. So international prices have also, by and large, bottomed with iron ore internationally remaining elevated. Coking coal has come down to some extent, but it still is not supportive of the steel prices today. So therefore you will see a supply side correction possibility in international markets from steel volume side, and that should be helpful for maintaining price stability in the international market. Similarly, in the domestic side, I think the current inventory status and a slight uptick in H2 in terms of demand and sentiment would help us to stabilize the prices from here on.

Ritesh Shah:

That is helpful.

Moderator:

The next question is from the line of Pinakin Parekh from JPMorgan. Please go ahead.

Pinakin Parekh:

Thank you. Two questions; First if I look at the export growth and volumes, the implied domestic sales volume decline is nearly 24% to 25% on a year-on-year basis, while the actual domestic consumption did not decline by as much. So, to that extent, did JSW on its own did not sell volumes in the market or where the specific issues and should this trend continue in the next 2 quarters? Or should this domestic sales volume normalize for the company?

Jayant Acharya:

It will normalize. One is that over the last two years or so, we have been consistently focusing on improving our value-added mix and a large focus had gone into automotive and the height and size strength for various construction segment, etc. Unfortunately, both got impacted in terms of domestic demand. Automotive, directly and indirectly, especially the commercial vehicle had a big impact on us. So therefore, that area went down sharply. The other reason is that in the retail segment also, we saw liquidity squeeze, restricting purchase and consequent month inventory losses leading to deferring of purchases. We did not want to push consciously the markets with lower pricing and thereby accentuate the fall further in terms of inventory losses. So we thought it more prudent that we take the meter out and take out the quantities through the export group. So the other thing is that we had domestic government orders for which, unfortunately some of these orders were put on hold or adequate funding was not available, which we expect that the funding should start and the whole should be removed in H2. So that would pick up. Domestic expenditures on the infrastructure side, oil and gas pipelines and water pipelines, we are already seeing some movement happening. So we should regain our market share. That is not a problem.



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Pinakin Parekh: Sir, so just wanted to understand what you highlighted in terms of the domestic market, has that somewhat changed into October? And are you seeing signs of that in November? Or you think this is more 3, 4 months down the line?

Jayant Acharya: So we are seeing improvement in the construction side. So let us say, typically, TMT bars, we have seen the pickup has already started in the last few weeks. The movement is better. It is better. The appliances sector, even in the last quarter, we did quite well as much as appliances last quarter went up Y-o-Y with 41% for us, solar went up by 18%. They continue to do better. We are seeing some entry of government-funded projects coming in later part of this Q3, which would basically translate into volume gains from the infrastructure space in the second half. So it is picking up. Automotive, I will be cautious to say that, yes, the improvement in passenger cars and two-wheelers is happening, led by discounts on BS-IV vehicles. So the retail side inventory is going down. However, commercial vehicle space will take some more time. And I think that maybe towards the end of the second half, we may see some improvement there.

Pinakin Parekh: Understood. My second question is, just if we take a step back, the net debt increase on a QoQ basis, you mentioned the company mentioned in the call that it remains committed to the acquisition of Bhushan Power, now Sir, assuming that the NCLAT accepts JSW's appeals and makes the required changes, and while steel profitability will improve, the outlook is not for it to go back to Rs. 12,000, Rs. 13,000 EBITDA per tonne anytime soon. In that context, will JSW remain committed to both the large organic capex plan, which it had announced 6 months prior and Bhushan Power acquisition? Or can we see some changes in terms of how the capital will be allocated between organic, inorganic growth in the face of the weaker margin environment?

MVS Seshagiri Rao: We already factored the acquisition of Bhushan Power & Steel while giving the numbers. I do not think that will undergo a change. Only the organic growth which we already committed, that expenditure, we will continue to incur with certain modifications if Bhushan Power & Steel happens. As I mentioned to you, out of Rs. 48,000 Crores of organic capex program, Rs. 7,000 Crores is yet to be committed. So that amount, we'll continue to review. There were Rs. 41,000 crores commitment is there. Certain projects, special projects and the projects which we have listed down to possibly push it to the following year based on the market conditions and also the kind of EBITDA which company would earn and also Bhushan Power & Steel acquisition.

Pinakin Parekh: Thank you.



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

Ashish Kejriwal: Sir, two questions. One is on Dolvi expansion. I think because of the heavy monsoon also, is there a possibility of any delay in Dolvi commissioning? And is it possible to give what kind of volumes we can expect from Dolvi in FY2021? That is the first question. And second question is, what kind of export mix still we are seeing that is in October because in second quarter, we have seen around 31% of the products. But in October, have you seen any change in that lot?

MVS Seshagiri Rao: If you heard about our calibration of capex, we talked about other projects other than Dolvi. So the focus to complete this 5 million tonne expansion project at Dolvi is a priority. Then if there are any slippages, so if you ask me, then the monsoon really affected the overall progress of the work. We were just renewing and trying to expedite. So this, I think, we will be able to give the correct picture maybe in the next quarter. But still, when we review, the project can be commissioned by March 2020 as planned, but the monsoon should stop. Still we are seeing it is raining. Even yesterday, there was a heavy rain in Dolvi. So we are expecting that now monsoon is not there. No rains will happen. But we will be able to mobilize the contractors and the workers. When rain happens, everybody leaves the site. That is a problem. So as per the current progress, we're still online to complete by March 2020. That is what we are working for.

Jayant Acharya: Export, your question regarding 31% in this quarter, I think the average for the first half is 24%. Our exports, if you see the last few years, we have been hovering in the range of 20% to 25% most of the time. So we will be in this range going forward as well, and we will look at H2 in that light.

Ashish Kejriwal: Fair enough. Sir, one more thing, in fact, when we are talking about the RCEP, you said that there is a possibility that government will go for it and there will be automatic trigger which can come with some import increases. But when we are looking at the total import rate, there are more than 80%, 85% of the imports are coming from these countries, where we will not have any duty. So is it safe to assume that whatever import duty, 2.5%, which we are enjoying right now for many of the products of any other country except FTA, that will no longer be valid going forward if we find ourselves in that range?

MVS Seshagiri Rao: If China is included what you are saying is right, but we have to see what type of auto-trigger mechanisms that would be agreed upon in RCEP is anybody's guess, whether it will be a 3-year average, it will be a 2-year average or a 5-year average or last year. These are all



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negotiations finally what will come in. So what is comforting to us is government is negotiating on this particular point after having seen the fall out in the FTAs, which has happened. That is one positive step which we are seeing this topic.

Ashish Kejriwal: And when is the last date, sir, for that? It is November 30?

MVS Seshagiri Rao: What we understood is post November. If it is not, it is not settled, then we will do a high-level meeting at very senior levels. Well, in that meeting, they will conclude, whether it will be done or it will not be done.

Ashish Kejriwal: Thank you. All the best.

Moderator: Thank you. The next question is from the line of Saumil Mehta from the BNP Mutual Funds. Please go ahead.

Saumil Mehta: Thanks for the opportunity. Sir, first question is, it's going to be auto-contracts for 6 months and have we timelines on our auto-contracts for the second half? And what would be a very qualitative across reduction what we are looking at?

Jayant Acharya: The auto-contracts are under discussion and negotiation, so they should be finalized in this quarter.

Saumil Mehta: But from the initial thoughts, it suggests that there can be a decent 5%, 10% reduction or probably it's difficult to comment at this point in time?

Jayant Acharya: There would be some correction because the first half prices have been stable for the automotive customers. So there would be some drop in the H2 for the automotive. But that discussion is on. It would be preemptive to comment that final number now.

Saumil Mehta: My second, with respect to your exit prices now from our channel checks and the other checks suggest that the exit prices were closer to Rs. 2,000 to Rs. 3,000 lower versus the quarter average. How different would we be looking at probably our exit prices versus the quarter 2 average?

Jayant Acharya: So I think rather than handling the price side as we would like to put in, that it is from a cost perspective, we are reducing our cost in the next 2, 3 months on account of coal and iron ore coming in from our own mines. Also, some cost initiative efficiencies, which have been worked out. So the spread in the next quarter would improve. We do not expect prices to drop so therefore the spread will improve. So if that satisfies your answer.



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Saumil Mehta: Okay. And so my last question is, have you seen some reduction in prices for October as well and start of November?

Jayant Acharya: No. Actually, in the long product side, the prices have stabilized quite well. As a matter of fact, on the retail side, there is an uptick on the longs. As far as the flats are concerned, currently we see a stable price environment. But as I said, that, that's what I am expecting that it is bottomed out.

Saumil Mehta: But there was no price cuts over the last month or so. Is that a fair assumption?

Jayant Acharya: Yes. So our last price correction happened in the month of September.

Saumil Mehta: Thank you very much. All the best.

Moderator: Thank you. The next question is from the line of Indrajeet Agarwal from Goldman Sachs. Please go ahead.

Indrajeet Agarwal: Thanks for the opportunity. I just have one question more on the industrial side. Of the 8 million tonne annualized export and import that India generally has, can you help us understand for how much MIP or ADD has already been triggered? And how much of it is special steel, which in spite of ADD being held down compulsory have to import? I want to understand that how much of that export and import can actually go off because of ADD?

Jayant Acharya: So the hot-rolled imports usually are in the range of 2 million-odd in a year. So hot-rolled and cold-rolled are items which are under ADD right now. So to that extent, they will get shielded.

Indrajeet Agarwal: Thank you.

Moderator: Thank you. The next question is from the line of Vishal Chandak from Emkay Global. Please go ahead.

Vishal Chandak: Thank you very much for the opportunity. Sir, so if you could just turn over to Slide 17, where you have a slide on EBITDA for the second quarter of last year and quarter of this year. We see 3 elements. One is volume decline, NSR decline and there's the cost improvement. If you could just help us understand the efficiency part would be within somewhere between the cost side. So if you could just help us on what elements of costs are included over here in terms of breakup coal, iron ore, electrodes, etc.? And how much is the efficiency parameter here?



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MVS Seshagiri Rao: No, it is difficult to give a breakup of the Rs. 1,165 Crores, how much is attributable to price, how much attributable to usage, how much it is attributable to other factors. So this is a composite information, where cost reductions are happening due to various factors attributable to the events.

Vishal Chandak: Sure. Okay. Lastly, you mentioned that there are two one-off items in this result. One is the grants, which we have taken for the past period as well as the reversal of the DTL. So if I were to normalize this on a like-for-like basis, then what would be the operating profit after tax for this current quarter?

MVS Seshagiri Rao: The total profit before tax incentive, that is PBT, if you look at it, is Rs.688 Crores, if I recall correctly. So the Rs.688 Crores includes the tax incentive. Then one point which we have to understand here is that it is not just one-off item. August 5, 2019, Rs.70 Crores to Rs.80 Crores per month incentive was used to come up to 3.3 million tonnes. It is not there for the month of September. It is not there for most part of August. So Rs.70 x 2 Rs.140 Crores, which was there in the earlier quarter, is not there on the 3.3 million tonnes. That has gone. In view of that, this Rs.512 Crores has come in, out of that Rs.46 Crores pertains to this year, balance Rs.466 Crores pertains to previous year. I do not call it as a one-off item. Because if you see every month now we are giving the guidance of Rs.20 Crores, Rs.25 Crores will come in. So this amount itself is Rs.300 Crores. So from that point of view, this will more or less, I should consider as operating profit, operating PBT going forward in the future because one compensates the other.

Vishal Chandak: Thank you very much Sir.

Moderator: Thank you. We will take the last question from the line of Sumangal Nivetia from Kotak Securities. Please go ahead.

SuSumangal Nivetia: Just one follow-up. On the cost savings, you shared about the coking coal cost savings. If it is possible to quantify what cost savings will have in iron ore and other costing projects which will contribute from Q3?

MVS Seshagiri Rao: There are series of items which contributed to the cost savings. One is iron ore captive and also not using the imports from Odisha. Coal side, which we already told about that. Similarly, natural gas prices have come down. So that has contributed. Thermal coal prices have come down. That is why cost of producing power has come down. Stores and spreads, there is a lower consumption. So there are several areas, where cost reduction has happened.



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SuSumangal Nivetia: No, I am talking about 3Q in terms of expectation of cost reduction, what will be, if any quantification is possible for iron ore and other cost efficiency projects?

MVS Seshagiri Rao: In the Q3, the major is the captive iron ore that is one area where we can get lumps and fines from our own mines. It is 1.25 million tonnes is what we have got in the Q2. In the Q1, we have got only 0.75, so total 2 million tonnes. That will go up to 2.5 million tonnes. That is one advantage of half a million tonnes which will come in. Then the iron ore prices have come down in the Q2. So that impact will come fully in the Q3 and Q4, plus ferro alloy cost, electrode cost, wherever reductions have happened, refractory costs, whether it has happened the impact of that will mean they will come in. In the monsoon period, particularly in the Q2, whatever efficiencies in the fuel side, that we could not achieve in the Q2. There is a monsoon, there will be high moisture. So fuel cost will be high. PCI injection will be lower. All that will get corrected in the Q3 and Q4 so again, fuel efficiency, very, very good in the Q3 and Q4.

Sumangal Nivetia: Understood. So when we are talking about spread improvement, is it from spot or exit spreads? Or is it from the 2Q spread levels?

Jayant Acharya: The Q2 spread levels.

Sumangal Nivetia: Okay. One just last question on the auction, you said, I mean, you have envisaged the government initiatives and maybe disruptions would not be there. But just as is there any restocking happening by us or by industry, if you can share any thoughts on that, Sir?

MVS Seshagiri Rao: Interruptions, let us say, it is divided into Karnataka and Odisha. With regards to Karnataka, we do not expect any disruptions in the state of Karnataka. So we expect something positive will happen on the Donimalai mines. Therefore, there could be more coming into the market in Karnataka. Then in the case of Odisha there is one more change which is expected to come in that the automatic transfer of existing approvals to the DLC at least for 2 years, we can operate under the old approvals. That is under an advanced stage. If that comes in, we don't expect disruption. If auctions happen, these approvals are transferred for 2 years, then there is no issue. Assuming that it would not happen, there is some problem will come in, then there are 2 comforts which we have, where in permitted against SAIL, Steel Authority of India. 25% of the dumps which they have, they can sell in the market, which is also quite a substantial quantity. Our understanding is they have 40 million tonnes, 25 to 40. This is a number which we hear in the market. There have been these kinds of stocks. So there will be auction of those materials from Steel Authority. Over and above that, the material which is lined with various mining companies, they are not able to



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evacuate because the logistics will not permit. So once the existing mines stop, then logistics will permit to move that material. These 2 will come into the market. So in either way, we feel that the disruption possibility is limited, but we are cautious. We are steady. And if there is a problem, then Q4, we will take appropriate steps.

Sumangal Nivetia: Thank you. Thanks and all the best.

Moderator: Thank you. That was the last question. I now hand the conference over to Mr. Rao for closing comments.

MVS Seshagiri Rao: Thank you very much. As regards to Q3 and Q4, we are quite optimistic. Demand will revive and come back. It will be far better than what we have seen in the H1. Second is we will be able to reduce the costs in the Q3 and Q4, and able to maintain, if not improve the margins much better than what we have seen in the Q2. Then we will be completing the project expansion at Dolvi. We will be focusing mostly on that expansion project by calibrating the capital program. We will make all the efforts to meet revised guidance of 97%, which we have given. The last one is we are working very hard to ensure that Q3 and Q4, we will focus our efforts in bringing stability and improvement in the overseas operations. The last one is to participate in the iron ore auctions and secure more and more iron ore going forward, thereby we will be able to get from capital sources to run our Dolvi and Salem units. Thank You.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of IIFL Institutional Equities, that concludes this conference call for today. Thank you for joining us. You may now disconnect your lines.