“JSW Steel Limited Q3 FY-22 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY22 Earnings Conference Call of JSW Steel. As a reminder, all participant lines will be in listen only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ashwin Bajaj from JSW Steel. Thank you and over to you sir.

Ashwin Bajaj: Thank you very much operator. Good evening ladies and gentlemen, this is Ashwin Bajaj, Head of Investor Relations for the JSW Group. It's my pleasure to welcome you to our earnings call for JSW Steel for Q3 FY22. We have with us today the management team represented by Mr. Seshagiri Rao – Joint MD and Group CFO; Dr. Vinod Nowal – Deputy Managing Director, Mr. Jayant Acharya – Director Commercial and Marketing; and Mr. Rajeev Pai – CFO. We will start with opening remarks by Mr. Rao and then open the floor to Q&A. So, with that, over to you Mr. Rao.

Seshagiri Rao: Good evening everybody. The Q3 FY22 just ended it is mixed quarter. Why I'm saying it is a mixed quarter, the steel consumption in India in this quarter month-after-month has gone up. The overall demand growth in the quarter was 9% and in the month of December, the steel consumption was 9.29 million tonnes which is the highest from April 2021. So, these are the positives which we are seeing, that month-on-month the consumption of steel have gone up in India. So, this is the positive side but at the same time if I look at and compare with the Q3 of last year, the steel consumption is this quarter has come down by 7%. That means the kind of acceleration which we were anticipating in the steel consumption in the second half of the financial year has not happened. The reasons as you know as far as India is concerned why either extended monsoon or too many holidays due to festival season in the month of November and the threat of Omicron and also slight slowdown in the overall global economic activity attributable to either tighter labor markets, tighter energy prices, supply chain dislocations, surging cases of Omicron; these are some of the reasons why we are seeing a slowdown in the economic activity worldwide. Added by the factors which I just mentioned in India.

In these circumstances, if I see JSW Steel it is the highest ever quarterly crude steel production, 4.41 million tonnes of crude steel. If I just break up this 4.41 million tonnes. 1,80,000 tonne is from Dolvi expansion. So, we have produced 4.23 million tonnes from the existing operations by operating our plants at 94% capacity utilization relative to 91% in the previous quarter. Production wise we've done quite well other than the Dolvi expansion which was under ramp up during the last quarter. The sales also improved compared to Q2, we have achieved a 6% growth it was 4 million tonnes of sales on standalone basis. But here what is interesting here is, the domestic sales once again crossed over 3 million tonnes, we posted 3.1 million tonnes which is a growth of 31% quarter-on-quarter in the domestic sales. So, there are many highlights in regards to the sales. Our value added steel products as a proportion of total sales went up to 62% from 60% in the previous quarter.

In auto we are seeing improving demand that's why quarter-on-quarter it went up by 2%. The sales to the solar sector went up by 26%, the appliances sector went up by 67%. The tin plate which goes into packaging, it went up by 34%. Domestic sales, there is a very good increase in the overall sales; to that extent, there was a moderation in exports. Exports was around 8,06,000 tonnes.

The net sales realizations quarter-on-quarter on a blended basis if I compare there is an increase of 2%; again auto sector, our long term prices got settled in the last quarter. So, that also got reflected. So, overall there is an increase in the NSR by 2% but the cost pressure was too high as we have guided last time, the coking coal prices $100 we absorbed. So, on blended basis, the cost have gone up by 70% so, that has an impact on the overall EBITDA per tonne on a standalone basis. It is Rs.16,980 per tonne, which is 23.6%. Compared to Q2, it has fallen by around Rs.5,900 per tonne. While a significant portion of this increase is attributable to the coking coal price, but a part of it is also on account of IBM price fixation for average selling price. So, generally as you know IBM fixes the average selling price in the state, each state particularly, the state of Orissa, considering the average of the sale prices that have been declared or that have been transacted in the state of Orissa. But this time what we have observed is that in the month of July and August when international iron ore prices were at the level of $220,$230 per tonne when they were falling to as low as $85 per tonne in the month of November. The IBM prices which are getting declared are not reflecting the fall in prices either internationally, or in the domestic market where NMDC reducing the prices that is not getting reflected in the IBM published prices.

But initially, when prices of September and October was declared by IBM, we notice that there is correction relative to August. Then after some time, they have republished the numbers for September and October, increasing the prices again substantially almost similar to what was in August. Just to give you a number 58% to 60% Fe iron ore, which was originally declared at Rs.2,305 for the month of September, they revised it to Rs.4,095. So, there is almost Rs.2,000 increase in the revised prices relative to what they have originally declared. So, when we were trying to understand why this revision has happened, is that due to exclusion of certain bonafide sales made by the company in the e-auctions conducted so those are excluded for the reasons best known to IBM. So, we have contested, but the revision has happened subsequently in the month of January 2022. We have to immediately make the provision while closing our books of accounts. This provisions, the net impact is Rs1,056 crores in the quarter, that is almost Rs.2,640 per tonne. So, when our EBITDA per tonne came down by Rs.5,920, if IBM prices correctly reflected what was there in the market, this fall in EBITDA would not have been there to the extent of Rs.2,640. So, we have taken up this matter to the High Court of Orissa, the matter is sub-judice, one hearing has happened, another hearing is expected in the next week.

So, considering this provision and then EBITDA at Rs.16,980 per tonne, the EBITDA on standalone basis is Rs.6,797 crores. As far as subsidiaries and other joint venture companies are concerned in the USA, Plate & Pipe mill and also the Ohio operations, together we have clocked an EBITDA of $55 million which was lower than the Q2. Again in the state of Texas, there is a tax on inventories that are there as on 31st December. So, generally sales will be lower, economic activity would be lower in the month of December that also contributed for a lower sales and the lower EBITDA in the U.S. operations. But in the current quarter, that's the Q4 of the financial year, we expect this would improve. In the case of Italy, there is a €7 million loss out of that approximately €6 million is one of items. At the time before we took over, the earlier management was contemplating to set up an electric arc furnace and they did some engineering and some expenditure, the expenditure we had written off. So, that is an amount close to around €6 million including another small item. So, this one-off item if I take it out, the loss in Italy is only €1 million. So, we feel in this quarter we should be able to do reasonably well in Italy. So, the overall EBITDA from overseas operations was Rs.340 crores in the Q3 as against Rs.485 crores in the previous quarter.

The Indian subsidiaries have done reasonably well. It recorded total Rs.769 crores of EBITDA from Indian subsidiaries other than Bhushan Power & Steel. So, I want to give you a separate number as far as Bhushan Power & Steel is concerned, which is Rs.1,547 crores EBITDA, which has been recorded by Bhushan Power & Steel. So, including Rs.1,547, including Indian subsidiaries, other Indian subsidiaries EBITDA, plus overseas minus consolidation adjustment all together, the subsidiaries have contributed Rs.2,334 crores. So, with that the consolidated EBITDA stood at Rs.9,132 crore and it is Rs.19,707 per tonne. This is our consolidated EBITDA number, our profit after tax was Rs.4,516 crores.

We also consolidated from 1st October 2021, Bhushan Power & Steel, with that the total net debt got added for Rs7,500 crores approximately. With that the debt was Rs.66,312 crores as on 31st December on a consolidated basis, including Bhushan Power & Steel. If I take out the debt of Rs.7,500 crores of Bhushan Power & Steel, the balance debt on a comparable basis was Rs.58,827 crores, which was higher when compared to 30th September 21, with almost close to Rs.3,000 crores. Our inventories in the quarter went up by around 3 lakh tonnes and also some debtors were to be collected. So, we have invested approximately around again Rs.3,000 crores in the working capital, that's why this debts has gone up. Our effort in this quarter is to reduce these inventories and reduce this debt to this extent and bring it back to the level which we have seen on 30th September.

Debt to EBITDA on the face of it appears to be 1.73x, but actually it is 1.53x. Why I'm saying it is 1.53x; when we take last 12 months trailing EBITDA, Bhushan Power & Steel only one quarter EBITDA has come in the 12 months trailing EBITDA, that is October to December. So, previous nine months, EBITDA has not got reflected while calculating this 1.73x. So, if we annualize the EBITDA of the October to December quarter of Bhushan Power & Steel, then this number will be 1.53x. And debt to equity was 1.02x.

As regards to nine months performance, our consolidated crude steel production was 12.61 million tonnes. These numbers are without Bhushan Power & Steel and our sales number was 11.215 million tonnes. If you have seen our guidance, we have given 18.5 million tonnes for crude steel production and 17.4 million tonnes for the sales. So, if I just break up this guidance we have given to existing operations and the expansion of Dolvi project. In the existing operations, we're almost near to our guidance we are at 97.5% to 98% both production and sales. But in the case of expansion, because of the delay of commissioning of this project, instead of July we could commission only in October and actual commercial production is from 15th of November. So, there we have lost volumes of production and sales from the Dolvi expansion project, now it is stabilized we will have a good volume for the Q4 considering the loss of production from Dolvi expansion project and 1% or 2% lower production from existing operations and sales from existing operations. So, our overall guidance for the year will be around 94% to 95% of the total guidance given for the year in sharing.

Our Dolvi, as I mentioned to you the expansion is more or less is over and it is stabilized except power plants which will get commissioned in this quarter. So, that will reduce again cost of production once commissioning gets complete. Out of the total two power plants, one is getting commissioned in the month of February and the other one in the month of March. Then what is left out is the coke oven plant in Vijayanagar and the downstream units, like one galvanizing line at Vijayanagar, one color coating line at Vijayanagar, one CAL line at Vasind, and one tin plate-2 at Tarapur. These are the downstream units which will also get commissioned before 30th of June 2022. So, this is briefly about the results. As regards to the overall performance of our Q4 is concerned, there will be a good volume growth, which will happen from the expansion project at Dolvi. Thank you.

Moderator: Thank you very much. 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: I have two questions. The first one is essentially on realization, so how do we see blended realization changing Q-o-Q from Q3 to Q4, and in particular our export mix from Q3 to Q4. The second question is on coking coal cost, what was it in Q3 and how is it expected to change into Q4?

Jayant Acharya: So, the coking coal prices Amit, have been very volatile over the last few weeks. So, coking coal prices, as you may be aware, have elevated to $430 FOB Australia, which was in the $357 range in the beginning of the month. So, it will be difficult for us to quantify exactly what will be the quarter 4 outlook for coking coal the way usually we have given, we would need to wait and watch how the situation moves with respect to the coking coal FOB prices. Having said that, we have two months usually in the inventory cycle. So, that's something which you can take into account while you factor your calculations. As far as NSR and realizations are concerned going forward, quarter-on-quarter, I would say that the prices in December have bottomed out and we have been able to settle the automotive prices, the quarterly prices for the January - March quarter also are by and large done. So, therefore from an exit of December to January, I would say that by and large the situation on a monthly price basis will be similar. However, there is an upside on account of automotive and quarterly. Going forward into February – March, the cost push which is happening across the world, both from coking coal, iron ore, zinc and other raw materials would keep the prices supported. We see over the last one week, the movement in the secondary market on the prices they have moved up and we see some reflection of that in the international prices as well. So, we do expect that there will be some movement on the prices on the positive side between February and March. Difficult to give an estimate as to what the quarter-on-quarter delta will be. But this is the direction where we are seeing ourselves in.

Amit Dixit: Just a follow up on this, what was the coking coal cost in Q3?

Jayant Acharya: It went up by $100 as we had estimated, it was $257 CFR.

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

Sumangal Nevatia: The first question just a clarification the iron ore one off 1,000 odd crores is that possible to break up between what it was with respect to September and October. That will help us to understand what was the one off with respect to the previous quarter?

Seshagiri Rao: Up to August the prices were available when we closed our books for September. After that when IBM revised the prices, they are revised only for September and October. So, the effect of September was Rs.264 crore in this total of Rs. 1,056 crores. Now October prices were revised so, we provided actual based on October IBM published price, same trend we expect for November and December when IBM will continue the same trend. We accordingly made the provision, the same time we are contesting starting from September that this is not the way ASP is to be calculated. So, we have to see finally how the matter will be decided by the courts.

Sumangal Nevatia: Understand, that's helpful sir. One clarification on the previous question what Amit had asked with respect to the prices. We understand exit December to exit Jan, as you said it's flattish. Is it possible to share what would be exit December prices versus the third quarter average prices?

Jayant Acharya: That will be difficult to give right now. But, as I was telling in the last question December and January are similar, international prices have seen an uptick, recent bookings of international exports have been $30 to $40 up. Secondary markets have moved up. So, we do see a positive upside possible for February and March.

Sumangal Nevatia: Understand. One just last question on the subsidiaries. So, quickly after turning positive at EBITDA level this quarter, we've again gone into a loss and also U.S. we see prices are weakening. So, is it possible to share what is our expectation going forward on a steady state basis to international subsidiaries?

Seshagiri Rao: The plate prices in fact have not fallen the way the HR Coil prices have fallen in the U.S. also. So, therefore, we don't expect the plate mill is concerned, there will be a decline in the overall performance either in terms of volume or in terms of EBITDA. But at the same time, in Ohio we are seeing a fall in the HR Coil prices but the demand was weak in the last quarter. In this quarter we expect the demand to come back, if that comes back, our view as of Ohio is concerned it should continue to perform the way it is doing if not improvement.

Sumangal Nevatia: Okay, and with respect to Italy?

Seshagiri Rao: Italy as I was mentioning in one of the calls last time is basically the rail mill. If rail mill operates fully then we will be in green, if rail mill there is an issue, then we will go into red. So, the rail mill operation is mainly dependent on the tenders by the Italian Railways. So, if there is any delay in any quarter in awarding those contracts and rail will operate sub optimally. So, that will land in negative EBITDA. So, we expect in the Q4 should come back, we are expecting rail mill should operate well and it will come back to green.

Jayant Acharya: We have already received one tender order from the Italian rail while that is the first initial order level. So, part of that will get executed in this quarter. We are looking forward to other tenders by the Italian rail during the quarter.

Moderator: Thank you. The next question is from the line of Indrajit from CLSA. Please go ahead.

Indrajit Agarwal: Couple of questions. First can you give us some color on the export market right now, how are we seeing the export booking and do we expect to go back to those 25% - 30% of sales export in this year as well versus what we have seen?

Jayant Acharya: So, on the export market, the overall Quarter 3 exports to domestic ratio on consol. basis, without BPSL, was 21% of export, 79% domestic. The export market today, post the December holidays, and in the inventory, liquidation stock down which has happened, the enquiries are far better post the holiday season. People have come into the market to buy therefore, in the last two to three weeks the export bookings have seen a good movement upwards. Some of the products have moved better, like hot rolled prices and hot rolled volumes have moved much faster right now than the downstream. However, the downstream we do expect the movement to start as we go into the month of February. The export ratios would be in the similar range between 20% to 25% in the Quarter 4 as well. We are looking at the international market but the domestic market is definitely poised to be better. We see the automotive demand in December has improved over October – November, in January it's improved beyond that. The outlook for Quarter 4 from automotive is very good. The general infrastructure pickup and construction activity is also quite positive. We have seen some tender announcements and some execution of the projects which are now taking place for oil & gas and water pipelines, which will be again positive for servicing during the quarter and beyond into the next quarter as well. Appliances and solar continue to do very well. So, we are by and large looking at a positive domestic cycle in the Quarter 4. So, therefore, we will keep export as a balancing number but the indicative could be between 20% to 25% on an increased volume vis-à-vis Quarter 3 last year, Quarter 4 this year will be higher in terms of overall volume as well.

Indrajit Agarwal: Sure. Sir again coming back from the domestic volume. Do you think that the market has grown as much as in FY23 can we see a strong single-digit growth in the Indian market in terms of consumption as the markets are growing overseas? Specifically, do you think those levers are in place or do you think the market is still much weaker than what it was pre COVID?

Jayant Acharya: In general the investments across the physical infrastructure space which we see specially from the government side is quite positive, the entire CAPEX cycle the way we look at it today is the industrial CAPEX and the infrastructure CAPEX. About 25% of the CAPEX is coming from private CAPEX, the balance 75% is coming from the government spending, mostly on infrastructure. The private CAPEX is mostly on the industrial side. So, the CAPEX pipeline looks good, the way we are seeing the oil & gas and water pipeline projects rolling out, the metro projects coming in, the high speed bullet train execution picking up, the expressway projects picking up, we are quite positive about the infrastructure and construction space the way it is building up. The real estate launches by the real estate companies are fresh on inventory liquidations are also quite positive, construction activities therefore are picking up. Automotive as we said is picking up, so yes I would say that if you look at GDP at 8.7% as indicated and based on elasticity of 0.8 odd we see a decent single digit growth possibility in 2023-24.

Indrajit Agarwal: One last housekeeping question. So, coking coal is the benchmark prices of the $430, how much do we have any forward contract in terms of any contracted amount, or our actual purchase price much lower than the benchmark price so it’s generally at some point in time reflect stability, out of the pricing of cost…

Jayant Acharya: The pricing is basically mostly index based and it gets rolled up for the month depending on the shipments for the month. However, you have your inventory cycle for about 60 days in the system between quantities within the country, port to plant and whatever is on the sea. So, that’s by and large the thing, the contractual prices separately we don’t have anything which is locked in at a particular price.

Indrajit Agarwal: So, just to clarify, the $257 CFR will turn to say for $430 FOB at some point in the next few months, it is likely?

Jayant Acharya: $257 CFR levels translate to, let's say roughly $305 level, let's say FOB level roughly at about $240 to $245 FOB levels. So, from there $430 is only a peak of today, if we were to look at the average for January, that's the way the index will count. So, we'll have to see how the movement of the index is for the remaining seven days and then take an average index number for January.

Seshagiri Rao: One point I wanted to clarify, $430 doesn't mean $430 is the entire cost of coking coal we will buy. We buy a proportion; it is generally 50% to 55% is prime hard coking coal, balance on semi hard which is lower than the prime hard coking coal. So, on a weighted average basis, if you see what goes into the coke oven, they are not at $430, in ratio $430 will continue. So, the relativity will be lower, number one we will get some discount to the index price. Number two is the relativity of the mix that goes into the coke oven to the index, that is also important. These are the two factors which we have to take into account, $430 minus $245 is not the cost to us.

Moderator: Thank you. The next question is from the line of Pinakin from JPMorgan. Please go ahead.

Pinakin Parekh: Sir, my first question is I am trying to basically put all the moving parts together. So, you highlighted the prices are broadly steady and possibly in coking coal there is an inventory, domestic iron ore prices would fall. So, if we take the starting point as Rs.16,900 and at this point of time in Q3, will the EBITDA per tonne move higher or lower because obviously spot coking coal is higher but you have two months of inventory?

Seshagiri Rao: Here the issue is, it's very difficult for us to say EBITDA per tonne will go up or down because there's so many moving parts as you rightly said; coking coal price which we were seeing in the range of $330-$340 it moved up to $430 within no time. The fall may happen to the same extent; we don't know what is going to happen. So, 60 days inventory when we have so from today to the end of the month, whatever coal we will be buying there is an extra cost that can come in in this quarter as far as the coking coal is concerned. But big part is iron ore prices are coming down. So, hopefully it will continue in the following months. And IBM & Court will decide in our favor thereby it gets revised downwards than what they have been declaring. At the same time, if I look at other than iron ore and coking coal, Ferro alloys have corrected significantly downwards relative to what it was in the Q2, Q3 part of it has happened, Q4 balance will happen. So, we expect because of the supply chains from China why again we're going back to China, is that majority of the other inputs whether you take refractory, you take electrodes, you take Ferro alloys, the input that will come is again dependent on China. So, Chinese supply chains are getting streamlined, that production is coming back therefore, there is a likelihood even other costs are likely to come down relative to what it was in the Q3. But the main point which you have to understand as far as JSW Steel is concerned, that in Q4 there will be a big volume growth. This is coming from Dolvi expansion, the 1,80,000 tonne is what has come from Dolvi expansion in the Q3, that will be much more than that, because when we gave the guidance of 94% to 95% of our sales target of 17.4 million tonne of sales, what we achieved 11.215 million tonnes for the nine months then you can see the kind of growth and volumes that can come in, in the Q4. So, that will keep the absolute amount of EBITDA in a very healthy level, even though EBITDA per tonne may fluctuate based on the various moving parts.

Pinakin Parekh: Understood, sir. Sir my second question relates to net debt and so now net debt moved very sharply higher you highlighted that some of this is because of working capital, which should reverse as the company sells on inventory, but clearly the net debt has moved from the Rs.50,000 crore handle which was there for a long time to the Rs.60,000 to Rs.70,000 crore range. Now, assuming that margins don't materially change, the company has the CAPEX plan in place. Should we expect net debt to broadly remaining in the Rs.60,000 to Rs.70,000 crore range for the next few quarters or do you think it can possibly even step up if there is a increase in CAPEX?

Seshagiri Rao: As far as the capital expenditure which we incurred in the nine months is Rs.10,350 crores. So, even after incurring that CAPEX, if you really see the net debt number excluding Bhushan Power & Steel. Bhushan Power & Steel of Rs.7,500 crore debt if I look at the EBITDA of that particular company, it can easily be serviceable out of the cash flow of Bhushan Power & Steel. If I exclude the Bhushan Power & Steel, and look at the consolidated JSW Steel without BPSL number, that is Rs.58,800 crores. Now, let us look at this number compared with 31st March 2021 number which is Rs.52,600 crores So, actual increase is around Rs.6,200 crores, this Rs.6,200 crore debt increase, if I look at the two numbers this is after spending Rs.10,350 crores on the CAPEX over and above that, the investment in the working capital in this year is Rs.11,097 crores. So, I talked about only 3 lakh tonne increase in inventory in this quarter. But if I look at overall inventory as on 31st March, 2021 versus 31st December, 2021, there is a significant increase in the overall inventory. So, we have to bring down inventories not by 3 lakhs, maybe another 2 lakh tonne plus the debtors have to come down. So, whatever we have invested in the working capital once this comes back, we will go back to the level as you have seen as on 31st March 2021. So, the number which is more important here, the kind of investments which has gone in the working capital because of the extended working capital cycle whether in terms of increased inventory or increase in debtors.

Moderator: Thank you. The next question is from the line of Satyadeep Jain from Ambit Capital. Please go ahead.

Satyadeep Jain: Just one question, on the one-off related to iron ore, if I understand it correctly, when the IBM prices were calculated initially, the company's e-auction volumes were included in the initial calculation and subsequently, in the subsequent calculation those e-auction volumes were excluded. If that understanding is correct, is it possible to quantify how much were these e-auction volumes and was that substantially basically lower prices than the spot prices at that time?

Seshagiri Rao: The company has conducted total 11 volumes there were 50 bidders, 37 bidders were the successful bidders. Out of that, three are related parties, balance all third party. Total volume which has been auctioned was 2.65 million tonnes out of that 1.9 billion tonne is unrelated. Now, this entire auction quantity exclusion is not in line with the provisions of MCDR rules 2017, that is what we are contesting. So, this is making a difference of approximately Rs.2,000 per tonne in the revised prices.

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

Ritesh Shah: Sir, just want to take the prior question forward. Sir you indicated 2.6 million tonnes of which 1.9 million tonnes was unrelated did I get it right sir?

Seshagiri Rao: Correct.

Ritesh Shah: Would it be possible for you to quantify what was the pricing differential between related and unrelated transactions on a volume weighted basis?

Seshagiri Rao: When you auction you can't distinguish between related and unrelated, anybody can participate in that. So, the price will be the same in the e-auction or it could vary very marginally from A to B or B to C. So, it can't be significantly different.

Ritesh Shah: Correct. Sir the reason I ask is basically you indicated Rs. 2,640 that number is pretty huge. That was the reason I asked that. Sir a related question, Ministry of Mines has indicated basically National Mineral Index and State Mineral Index, to what my limited understanding is, the incremental premiums will still be paid on National Mineral Index. However, there is an element of quantities of grades which needs to be prefixed when we arrive at a particular index. Sir where is this process at and given what has happened in the last quarter. How should one understand this particular variable actually flowing incrementally because it's quite pertinent from a P&L standpoint?

Seshagiri Rao: So, there are a lot of distortions, the way the average selling price is calculated in the current provision. This has been brought to the attention of the government, government has appointed a committee, this committee has met all the stakeholders, how to fix every selling price, even if it finally goes into National Mineral Index. So, they have their recommendations and the recommendations are getting submitted, I understand to the government, then hopefully something will come or clarity will come, how it gets fixed in a transparent manner going forward.

Ritesh Shah: Sure sir. And my second question is for Jayant sir, how are you looking at Chinese Net Steel exports trends going forward and any color on Chinese infra stimulus or how are you approaching the local demand supply situation in China. Just trying to get a sense on how are we looking at Chinese export numbers and the underlying economy. Thank you.

Jayant Acharya: Chinese production is likely to be moderated during the next few months, the winter Olympics and the winter months they want to control the carbon emissions. Certain regions are controlling the production more than others, that will result in a lower export or more moderate exports from China during this period. The other thing is that the Chinese economy now is looking, the government is looking at stimulating that we have seen print to say that the interest rates have been reduced. There is more liquidity being pumped in, the support to the real estate market is likely to be given. So, we are seeing some positive vibes from the government to stimulate the economy going forward. So, that's the positive so therefore we think that Chinese domestic demand will be reasonably okay and exports will continue to be moderate, at least for the first half of this year.

Moderator: Thank you. The next question is from the line of Abhijit Mitra from ICICI Securities. Please go ahead.

Abhijit Mitra: I have two question. Firstly, regarding the JSW Coated EBITDA movement, the sharp decline how do you explain it, is it because you have taken the CR price cuts, but yet to sort of taking action or decision on the HR prices. So, that's question number one.

And the second question is, how to sort of bridge conceptually the EBITDA per tonne that we are seeing on the standalone and Bhushan because standalone EBITDA is around Rs. 17,000, Bhushan EBITDA is around Rs. 26,000 per tonne, so how to sort of bridge these two. Thanks these are two questions I have.

Jayant Acharya: On JSW Coated, the numbers have been a little lower this time because of the cost impact on certain raw materials like zinc, aluminum, tin and paint that has led to a moderation in the EBITDA numbers. We are watching that space, there is a raw material pressure, HR prices to some extent have moderated on an exit number from December. So, this situation for the Quarter 4 should be better.

Abhijit Mitra: Just a follow up on that, there is spread between CR and HR is that anything to do with that what I was trying to understand because we understand that you would sort of supply the steel from JSW and get it converted out there. Because realizations are also down significantly not only the cost so, if you can just briefly build on that?

Jayant Acharya: HR and CR trade you are saying, I didn't understand that part. Can you just repeat the question, HR and CR what did you?

Abhijit Mitra: The spread between HR and CR, the compression in spreads between HR and CR prices, the compression of the gap between HR and CR prices, does that play into the spread that you have reported?

Jayant Acharya: No, the HR and CR the compression in HR and CR gap has moderated that is primarily in the CRCA retail space which you see, but in Coated different products are behaving differently. If you look at Tin, Tin prices are probably one of the best and we see a strong price support on Tin going forward, the demand is also quite good. On the coated OEM space, if you look at solar, if you look at appliances which take specialized, galvanized and specialized GL, there also we are seeing decent demand and therefore, the prices there are also holding up; these are high strength steels and therefore not available from everybody. On the color coated space while the prices have moved down, but in certain brands of color like Colouron+ where we continue to have an edge, we see the price drop has been lower than the other level of color seen from competition, but there is a pressure in coated on commodity galvanized. Commodity galvanized in coated has come down more than especially in the retail and the pipe and tube segment. That area is putting some pressure in the market. But going in the last one or two weeks as we were seeing in general commentary the prices have improved, including the retail space of galvanized.

Seshagiri Rao: If I can clarify on the second question, which you asked as far as BPSL EBITDA versus JSW Steel, you have to look at Bhushan Power & Steel they have surplus capacity in the blast furnace. So, they also sell pig iron if you look at their EBITDA it includes the sale of other material other than finished steel. So, that adjustment requires to be made. Number two is, if they're producing let's say, two lakh tonnes per month of HR Coil what they sell in the form of HR is only 30,000 that means around 15%, balance 85% is in the form of value added whereas when you calculate JSW Steel standalone EBITDA per tonne that is not comparable actually with Bhushan Power & Steel because the entire value addition is not getting reflected in the standalone EBITDA of JSW Steel. Then, the third point is when Bhushan Power & Steel participate in auctions when they got the iron ore, they got at a lower price. Whereas that cost is booked in the JSW Steel that difference, these are the three differences if you adjust, EBITDA per tonne on both the companies are comparable.

Moderator: Thank you. The next question is from the line of Nitij Mangal from Jefferies. Please go ahead.

Nitij Mangal: Firstly, for FY23 what kind of incremental volumes are we expecting from Dolvi expansion?

Seshagiri Rao: We will tell you clearly the exact number in May. But the ramp up is quite good, now it is stabilized. So, the unit is working very well. The numbers we will give you when we meet in May.

Nitij Mangal: And second one on this iron ore show, is there any ambiguity on November - December pricing as well and if it's possible to share what's IBM rationale for that change in the reference price. Thank you.

Seshagiri Rao: I don't want to get into too many details, what is the issue which is there on the table. But the way the methodology which is being adopted by IBM for calculating the average selling price in Orissa is not in accordance with what IBM follows in Karnataka, both are different. In Karnataka all the iron ore is auctioned. So, the way the average selling price in Karnataka is calculated is not the same methodology which is done in Orissa. Therefore, there are discrepancies, the discrepancies are brought to the attention of IBM and also to the Honorable High Court of Orissa. So, the matter will get resolved in the course of time.

Moderator: Thank you. The next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.

Bhavin Chheda: Two questions. One, what was the capital acceptances and revenue acceptances figure in the quarter and the second one was what was your captive iron ore volume and if you can break that into Karnataka volume and Orissa volume?

Seshagiri Rao: The self sufficiency of captive iron ore in the last quarter was 47% on the increased volume, I don't have the breakup right now between Karnataka and Orissa. The capital acceptances, which you asked for raw material was US$1,486 million because coking coal prices have gone up, the acceptances the raw material side went up to US$1,486 million but at the same time capital acceptances we have bought it down is US$174 million. So, total US$1,660 million.

Bhavin Chheda: Okay. And sir any clarification of this Bhushan Power EBITDA per tonne what you explained is substantially higher because obviously the NSR also looks higher because obviously the pig iron and the other sales number which gets captured in the sale divided by actual finish till volume, so which means you are indicating this spread is a sustainable number over JSW and there is no one off there?

Seshagiri Rao: There is no one off except the iron ore pricing what happened.

Bhavin Chheda: What iron ore pricing sir I didn't get that?

Seshagiri Rao: I explained to you about IBM price, fixation of…..

Bhavin Chheda: That's fine, that is captured in standalone, I was looking at Bhushan Power EBITDA per tonne which comes to roughly Rs. 26,600 this quarter, even last quarter was Rs. 26,600. So, in fact has remained steady for last two quarters despite cost going up in this quarter. So, was trying to figure out if there was some one off in that number?

Seshagiri Rao: There is no one off item.

Moderator: Thank you. The next question is from the line of Kamlesh Bagmar from Prabhudas Lilladher. Please go ahead.

Kamlesh Bagmar: Sir, just on this iron ore cost or the charge which we have taken in this quarter. Sir, if I see the right from October, November, December data based on Orissa Minerals data, which is a published one so, every time let's say our realizations of which we have published there or reported there are low by roughly around Rs. 2,000 odd even for the December month. So, and if we see all other like say around 20-25 odd miners, which they have OMC or Essel mining, this difference is there across the miner. So, how we are going to substantiate on that particular item like, that our realisations are lower by roughly around Rs.2,200 on that count, because they are also selling the mineral for last like say or around 20-25 years. So, there prices like for 25 odd miners against us. So, how would we be able to establish that particular argument?

Seshagiri Rao: We have been operating the mines since July 2020. Now we are in December 21. Upto August 21 we have not raised any issue. Since, September 21 onwards, there is a problem, because we did the auction. When we auction I did not do anything, there is a bidding on the MSTC platform e-auction platform. Even OMC does auction under MSTC platform. Karnataka does auction on the MSTC platform. When we do the auction, the next bidder participated you know the price, you know the quality. So, there's nothing he has to prove to anybody. And we know the grade, we know the price, we know the bidder we know the seller, we know the mine from which it is going. Therefore, it is quite transparent, but the way they are interpreting the way we understood is different, particularly in the latter months when the prices have fallen. That's why we say there is an issue which we took up very strongly, not only legally but also to the government.

Kamlesh Bagmar: I appreciate that sir. Sir and lastly on this PLI like say we are doing massive investment in the downstream. So, how much of our quantity in downstream or upcoming capacity because it would be applicable on the expansion, would be covered under the PLI?

Seshagiri Rao: PLI scheme just now they have announced the guidelines. So, we are studying those guidelines and we are working out based on those guidelines how much capacity can come in because there are certain timeline by which the production has to start, the expenditure has to come in. So, those things which we are calculating, next time when we meet in May we will be able to throw light on that.

Kamlesh Bagmar: And lastly sir, we have mentioned that we have two months of coking coal inventory. So, assuming that these current prices continue or $10 to $15 here and there. So, what increase or what change can we expect for the Q4 in terms of coking coal prices?

Seshagiri Rao: The way in fact, we wanted to give you a number in fact, so we worked out the numbers based on the price prevailing up to 31st December. So, when we calculate that number, assuming that it would continue, it would be in the range of around $25 per tonne. After that the prices went up. So, therefore, we have to now recalculate with the January month whatever buying that is happening, part of the quantity will come in consumption in the month of March. Therefore, that number, we don't know. So, minimum $25 after that we have to calculate the number and then share.

Moderator: Thank you. The next question is from the line of Vikas Singh from Phillip Capital. Please go ahead.

Vikas Singh: Sir just wanted to understand what is our landed cost at January from our captive versus the bought out iron ore, if you can tell us the difference and which one is higher at this point of time?

Seshagiri Rao: That is very difficult to tell there is a number, iron ore are of different grades. As far as our mines are concerned, it is low grade. We get the low grade, beneficiate and then use it. So, this is not directly comparable. Therefore, it is not proper to give you a number.

Vishal Singh: Understood. And sir secondly in terms of Bhushan Power. So, just wanted to understand have we check whether we have the spare capacity addition potential because what we have heard that the capacity could be taken to 3.5 to 4 million tonnes. So, anything you would like to share about by when you would like to start working there or what is our thought process in terms of utilizing that capacity going forward?

Seshagiri Rao: Last time, we already mentioned that there is a total CAPEX of Rs.3,500 crores which is committed in Bhushan Power & Steel which is currently going on. Out of the Rs. 3,500 crores, Rs.1,500 crores for improvement in the various areas to reduce the cost saving initiatives including the PCI injection, and also coke oven plant which is not fully commissioned. So, those are the areas where we are spending money to improve the operational efficiency of BPSL that will reduce the cost further. The second amount of CAPEX is relating to Rs.2,000 crores to increase the capacity from 2.7 million tonnes to 3.5 million tonnes. So, that gets completed in the next financial year. So, we expect at least by September 30th, we should be able to complete this project.

Moderator: Thank you. The next question is from the line of Prashanth Kota from Dolat Capital. Please go ahead.

Prashanth Kota: Sir, I have two questions. The first one is on the coking coal side. Sir, right now the FOB price for the low vol prime grade is $430. Let's say we use a blend of prime grade, then a mid-wall and let's say the second tier. Even then if you see the FOB basket if you see 50%- 60% prime 20, 20 the rest two, still the price will be around $380 FOB and CFR will be $410. Sir and as a country also if you see now we are one of the largest importers of coking coal probably in the world. And this is not just an issue for JSW, probably it's a national issue also sir. And the price behavior of coking coal, if we see this like oligopoly kind of behavior not now, since 10, 12, 13, 14 years, we are seeing there is 15 days of rainfall and for six months prices remain elevated. And there's various times, various instances, it hits very substantial spikes, etc. And sir is there any way we can renegotiate as a country and carve out something as in the coking goal price should be a percentage of the steel price, not a PLATTS index, which is quite illiquid, and sometimes we don't know what exactly is going behind there and it's not that scientific maybe. So, maybe it should be today rebar price is $725 in India and coking coal is $450 CFR, 65% sir just one commodity, and they need us as much as we need, coking coal there is no other use. So, this is not a symbiotic, it's a symbiotic relationship, but it somehow there appears to be a lot of arm twisting, I don't know, what is the solution for this, you have to form a syndicate as a country and do something or what is the solution. Just wanted to know your thoughts.

Seshagiri Rao: We appreciate your anguish in this and we are also equally anguished on this issue. But for instance, in the case of oil OPEC, what the entire world is able to do so they dictate how much supply is to be done, what should be the price nothing could be done. Same story in coking coal, same story in iron ore very few players are there. So, they dictate what could be the price, how we should operate. The point remains is how India as a country where we have large ambition to become a 300 million tonne steel country by 2030, where our coking coal requirements will continue to go up from current levels. So, how we can become self-sufficient with regard to coking coal. Here, as a company, we have given a proposal to the government which we are really pursuing very, very rigorously on that, there is enough coking coal that is available within India. So, how to develop taking into account all the stakeholders, one is the state government where the mines are located and other the central government, another is steel industry. The third one is the people who are affected due to mining, these four constituents have to have mutual trust and then work together to see that this problem can be structurally addressed. So, we are on it, hopefully something should happen.

Prashanth Kota: Okay, sir got it. Sir just next question. Sorry for the follow up on that. Sir just because of elimination of our company's auction bids, the IBM prices have been revised or is there anything else that they have eliminated, only just one because they have 25 sellers, only one sellers prices they have not considered hence, it has been revised upwards or how is it sir?

Seshagiri Rao: We also don't know how originally they calculate it, how revised price has been calculated. The point is that, when revision has happened, then we learned that there are some exclusions happened. So, then we took it out that issue with them, and then followed by a litigation in the court. So, what is that they have taken into account, what is that they have not taken into account we don't know but ours is excluded because they have issued a notice to us to view the details of the quantity sold in the auction and whom we have sold all those details have been provided to them. Thereafter, price is revised. Therefore, we feel that ours is excluded, then we took them.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, we take that as the last question. I now hand the conference over to the management for their closing comments. Over to you.

Ashwin Bajaj: Thanks operator and thanks everyone for joining us. Feel free to reach out to us if you have any follow up questions. Good evening.

Moderator: Thank you. Ladies and gentlemen on behalf of JSW Steel that concludes this conference. We thank you all for joining us and you may now disconnect your lines.