



“JSW Steel Limited Q3 FY23 Earnings Conference Call”

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

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Moderator: Ladies and gentlemen, good day and welcome to the JSW Steel Q3 FY23 Earnings Conference Call.

As a reminder, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touch-tone phone. Please note that this conference is being recorded.

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

Ashwin Bajaj: A very good evening ladies and gentlemen. It's a pleasure to welcome you to JSW Steel's earnings call for Q3 FY 2023. We have with us today the management team represented by Mr. Seshagiri Rao – Joint MD & Group CFO, Mr. Jayant Acharya – Deputy Managing Director, Mr. Rajeev Pai – CFO, and Mr. G. S. Rathore – Chief Operating Officer. We will start with opening remarks by Mr. Rao and then open the floor for Q&A.

With that, over to you, Mr. Rao.

Seshagiri Rao: Good evening to everybody. We welcome you all for the briefing up for Q3 performance for the financial year FY23. Global economy, as you know, has been battling with several headwinds – high inflation, high interest rates, and very high government debt to GDP with limited fiscal space to various governments and worsening financial conditions. The outcome of this is, everybody is talking about very slow growth to mild recession across the globe other than certain countries like India. Over and above that, there is one trigger which we have seen recently. China moved away from zero COVID policy and the easing restrictions in the property sector is the trigger where we are seeing commodity prices going up and the outlook slightly changing.

Over and above that, we also have seen 2 more restrictive trade-related issues globally. One is by the US government – the Inflation Reduction Act, which has been passed. This restricting in our view is free trade because they are giving more and more importance for energy transition using the materials within USA or friendly countries with whom they have FTAs. So, across many countries are talking about this restrictive trade-related act is being objected upon.

In addition to that, we are also seeing a disturbing news from Europe about Carbon Border Adjustment Tax. Even this particular initiative is being used to restrict the trade, particularly a developing country like India where we have our own nationally determined contribution where we have given as a country that we will reduce our carbon emissions by 2070 to become neutral, whereas now we will get penalized if we have to export to Europe. But at the same time, the European countries' allowances are getting continued up to 2032 or even beyond. That is why this appears to be a little bit of trade restrictive policies that is being followed by West. This will

lead to, in my view, concentrated trade or another form of globalization, which is regionalization of trade. This is also not a very encouraging news.

At this backdrop, if we look at as far as India is concerned, I think very good demand for steel; all the macroeconomic parameters are encouraging in India. So, revival in the infra spending, PLI-related manufacturing, residential construction activity picking up, metro lines, pipelines, freight corridor, renewables; there is a very good revival as far as the overall economic activity is concerned. Over and above that, export tax withdrawal since November 2022 is also very encouraging.

So, Indian steel demand in the first 9 months of the year has gone up by 11.5% for the 9 months, which is almost a million tonne more every month; that is very encouraging. But here also, the imports have gone up – quarter on quarter by 47% and year as a whole 9 months, it went up by 40%. So, imports are increasing into India, and at the same time, exports have fallen. Exports have fallen by 27% quarter on quarter and 59% year on year. This is an important issue as regards to imports going up and exports falling and the consumption demand reasonably okay as far as India is concerned.

In this background if you see the JSW Steel's performance, it is the highest ever crude steel production. On a stand-alone basis, it is 5.32 million tonnes, showing a growth of 7%. We operated the steel plants at 92.5% capacity utilization. Bhushan Power and Steel improved its capacity utilization to 85% as against 72% in the previous quarter. So, on a consolidated basis, we have posted a crude steel production, again, highest ever, of 6.06 million tonnes, showing a growth of 9% quarter on quarter with a capacity utilization of 91%.

On the sales side, on a stand-alone company basis, we had 4.95 million tonne sales. On a consolidated basis including Bhushan Power and Steel, it is 5.55 million tonnes. It appears to be slightly 1% or 2% lower on a consolidated basis volumes but if I look at the domestic volumes are concerned, it is a very good growth. We sold over again 5 million tonnes, highest ever domestic sales, 5.163 million tonnes, showing a growth of 2% in volume terms. But the overall volumes are lower because exports have fallen. Exports have fallen by 32% year-on-year basis. Our exports as a percentage of sales in this quarter was only 7%, 3,83,000 tonnes. It has fallen almost by over 1,70,000 tonnes of fall in the exports.

Our net sales realizations quarter on quarter have fallen by 5% but costs also have come down by 14% as we have been guiding that the coking coal prices will come down by around \$80 in consumption terms in the last quarter. In fact, we achieved \$100 per tonne. But in the iron ore prices, there is a slight increase quarter-on-quarter basis. But the power cost, ferro-alloy cost, fluxes cost, fixed cost, they all came down. That said, overall, we got a benefit of 14% on quarter-on-quarter basis. This has translated to close to Rs. 7,900 of reduction in the cost. Even after offsetting Rs. 3,200 of fall in the NSR, we could improve our EBITDA margin by Rs. 4,680 per tonne. EBITDA margin was 13%, EBITDA per tonne was Rs. 8,149.

Here, the important point is the way last quarters we had suffered due to rupee depreciation and also the inventory losses. This quarter also it has happened in Q3. On a consolidated basis, Rs. 984 crores is the impact of FX loss and the inventory losses. This will translate to Rs. 1,750 per tonne. If we take Rs. 8,150 as margin, if these losses were not there, then the EBITDA margin is close to Rs. 9,900 per tonne in this quarter on a stand-alone basis.

The EBITDA for stand-alone company is Rs. 4,030 crores, it is 131%. The net profit was Rs. 1,234 crores. As regards to domestic subsidiaries on a consolidated basis, JSW Coated including VTPL, ACCIL, and VIL, there is a positive Rs. 11 crores EBITDA which was 59 crores negative in the previous quarter. Similarly, in the case of other subsidiaries also, they have become positive in this quarter. BPSL posted Rs. 341 crores EBITDA as against negative Rs. 183 crores in the previous quarter. So, all domestic subsidiaries together Rs. 451 crores positively contributed in this quarter.

Similarly, overseas, it has a positive contribution of Rs. 112 crores. Italy has done well, it is EUR 7.8 million as against EUR 1 million in the previous quarter. Baytown has done reasonably well. It has \$17.2 million EBITDA even though slightly lower than in the previous quarter. In Mingo Junction, we were able to reduce our losses from \$40 million to \$22.8 million. So, net-net, US has contributed \$5.6 million negatively. But Italy has made positive contribution. That's why overall overseas subsidiaries altogether contributed Rs. 112 crores positively as against Rs. 191 crores negative in the previous quarter.

So, on a consolidated basis, both overseas subsidiaries and the Indian subsidiaries together, after adjusting consolidated adjustments, the net contribution is Rs. 517 crores. So, the overall EBITDA on a consolidated basis is Rs. 4,547 crores which works out of Rs. 8,082 per tonne. The profit after tax is Rs. 474 crores.

The net debt is Rs. 69,498 crores. Average cost of debt has gone up, 6.89%. There is a slight increase in the debt partly contributed by FX fluctuations, partly due to the Capex which we incurred during the quarter. The EBITDA to debt is 3.51x. Net worth is 1.09x. The revenue acceptances are \$2,338m. Capital account acceptances are \$95m. We have spent capital expenditure of Rs. 4,100 crores during the quarter, aggregating to Rs. 10,700 crores for the entire year.

During the quarter, we also commissioned our coke oven plant 1 battery at Vijayanagar. So, in the future, there is no need for us to procure coke for the Vijayanagar operations. That will positively contribute partially in the Q3 and fully in Q4. We also commissioned our 60-megawatt power plant at Dolvi. Part of the benefit had come in Q3, full benefit will come in Q4.

On the value-added side, we have commissioned the CAL unit 0.5 million tonne at Vasind and the tinplate 2 at Tarapur and LRPC unit at Vijayanagar. These are some of the positives as far as improvement in the product mix and the cost reduction side.

JSW Steel got the clearance for nine of the projects under PLI scheme. Out of these 9 projects, 6 projects already are under implementation. They are part of the capital expenditure announcements that have been made by the company. Three more projects we have to take up. During the course of time, we will take. PLI scheme totally Rs. 16,751 crores is the investment. Out of that, Rs. 5,350 crores is already committed; capital expenditure is going on.

With that, I will stop here. If any questions are there, we are here to clarify.

Moderator: We will now begin the question & answer session. We have the first question from the line of Amit Dixit from ICICI Securities. Please go ahead.

Amit Dixit: I have a couple of questions. The first one relates to the note 2 of the account financial statements, wherein we have received a show cause notice from the Director of Mines, Joda, amounting to Rs. 702 crores. While we have not made any provision so far, but in the past, we have seen that any such demand of royalty, ultimately we have to pay. While it appears from the note that it is currently not legally tenable, but do you foresee any such repetition like in the past that we will have to ultimately pay this Rs. 702 crores?

Seshagiri Rao: If you have read the note, it is clear that it is not legal to issue such notices. That is why the Appellate Authority has given a stay here. It is not unique to JSW Steel to operate the way the mines are getting operated. Basically, the show cause notice or the demand notice was issued based on the difference between actual grade of iron ore that is being mined compared to GR report. And other is mining plan whatever we have stated versus what is actually happening. It is a notional demand. It is not an actual mistake that is being done. 1) No mine in India will adhere to the GR report, the actual mining. 2) No mine can get operated as per the mining plan. It is only indicative plans which get approved. It goes on changing. Also, the mine is for 50 years. If we are mining on a single month X quantity of iron ore of a different grade, that need not exactly match with reference to the mining plan or with reference to the GR report. Just seeing the facts itself, it shows that it is not a valid demand that has been made. So, we have a very strong case which we have been advised legally. We are contesting this particular point. That is why there was no need for any provision in our view, supported by legal experts.

Amit Dixit: The second question is essentially on cost. You indicated in your opening remarks that the coking coal cost on a consumption basis was down \$100 per tonne. What kind of movement we expect in Q4? And iron ore prices have been moving up. What kind of increase in iron ore costs do you see in the next quarter, i.e., Q4?

Jayant Acharya: As far as coking coal is concerned, we have been able to get an advantage of \$100 in the last quarter. It will be flattish this quarter. We don't expect too much of movement, it will be range bound. As far as iron ore is concerned, I think we have already seen the prices going up and we expect this also to remain in the range-bound manner in this quarter. It has already moved up in the last few weeks.

- Amit Dixit:** Are we carrying any inventory of iron ore, the low-cost inventory?
- Jayant Acharya:** We are basically not carrying too much of inventory of iron ore.
- Moderator:** We have the next question from the line of Satyadeep Jain from Ambit Capital. Please go ahead.
- Satyadeep Jain:** A couple of questions. First one is on the followup to Amit's question. Can you talk about the magnitude of difference, possibly an indication of how much is the difference between the actual mining plan grade and what's actually happened in the quarter? And related to that would be – any update on the IBM revision case also? I think it had gone to higher court. But after that, do we have any update on that?
- Seshagiri Rao:** Magnitude of difference is not relevant here; how much difference is there. Fundamentally, we have to understand, is there any ground either legally or otherwise for questioning about actual grade of iron ore that is mined vis-a-vis what is stated in the mining plan or in the GR report. It can never happen in the practical sense. It will happen over 50 years life of the mine. Based on that, the magnitude of difference is not very relevant here.
- Similarly, as far as the IBM revision is concerned, the prices are getting revised considering some of the points we have already been contesting. There is also a proposal to make amendments to the law to change the method of computation of average selling price. We hope those amendments are done. In the meantime, the case is going on.
- Satyadeep Jain:** Next question is on Bhushan Steel. I just wanted to go back to the earnings trajectory for that particular business. Till 2 quarters ago, it used to report higher EBITDA per tonne than stand-alone. I think it was mentioned that possibly it is because of the higher value-added mix that BPSL has, and that entire trajectory has kind of reversed in the past 2 quarters. I just wanted to see what's going on and is that likely to sustain? Or do we, once maybe things normalize, would expect BPSL to again generate higher margin than the standalone business?
- Seshagiri Rao:** BPSL, as I mentioned, the capacity utilization improved. In Q2, we had suffered due to lack of iron ore whereas in the case of Q3, there was a high-cost inventory of coal that needed to be consumed; and also, there were some NRV losses which had to be taken. NRV losses are large, Rs. 158 crores, in the company. Similarly, the pellet plant, there were certain shutdowns which have been taken. They had to buy the pellets from outside at a higher price. These were some of the reasons why BPSL performance was not as expected. Even then, the EBITDA per tonne which they have made in the last quarter was Rs. 5,010 per tonne. But this NRV and inventory losses which amounted to Rs. 158 crores, if I take that, if they are not there in the future, if you make that assumption, Rs. 2,317 is on account of these one-time losses. If I take these two into account, the actual EBITDA in BPSL is Rs. 7,307. Now, going forward, in future, the capacity utilization is better. The capacity expansion from 2.7 to 3.5 is complete. So, more volumes will

come. And now their costs are under control. So, BPSL performance will be much much better in Q4 over Q3.

Moderator: We have the next question from the line of Sumangal Nevatia from Kotak Securities. Please go ahead.

Sumangal Nevatia: First, on the cost. If you could just share the dollar per tonne number for coking coal, what was it in 3Q? And on the other side, we in the opening remarks shared that there is some cost deflation on other items as well in terms of power, fluxes, some consumables. If one can quantify how much was that? And is the deflation or normalization expected in 4Q also on a quarter-on-quarter basis?

Seshagiri Rao: As far as the power cost is concerned, it is dependent upon the thermal coal prices. Thermal coal prices have come down due to which there is around Rs. 600 reduction per tonne of steel on power alone. This is expected to continue. May not be additional incremental reduction, but these prices are not going to be higher. Similarly, on the coal side, already Jayant has covered that point. There won't be any increase on account of coal because we are more or less covered for this quarter. Then, the ferro alloys and fluxes, they have started coming down. So, the full benefit of lower prices of consumables, fluxes, and other items have not fully come in the Q3. So, those benefits will flow more in Q4 or fully in Q4.

Sumangal Nevatia: Is it possible to quantify? Just to understand the quantum, how big is this?

Seshagiri Rao: We already said Rs. 7,880 per tonne is the lower cost which is 14% lower than the Q2. That constitutes various items; a significant portion is coking coal. Coking coal, we have already given the number of \$100 per tonne of coal. That benefit has come. All this together is Rs. 7,880. It is not possible to give a breakup of various items.

Sumangal Nevatia: Sir, the second question is on the price direction if you could just share. We do hear a lot of reports of price increases in early Jan and even in mid-Jan. If you could quantify how are we seeing the prices in this quarter? And also, how is the export market looking? How is the order book after the export duty being removed from mid-November onwards?

Jayant Acharya: On the pricing side, things are looking up. In the last few weeks, we have seen the international prices move up. On a dollar basis, I think China moved up by about \$100. European CFR also, we have seen move up in the range of \$140-plus. And we are seeing a reflection of that in India. Primarily, the cost increase, some of that had become unsustainable, and therefore, the steel prices are coming back to a level where margins will become a little bit more livable. So, you are seeing the prices increase from 1st January, and as you said, in some of the products maybe mid-January as well. You will see this probably play out in this quarter which is seasonally a better quarter. And in India, fundamentally, the demand drivers are strong – infrastructure,

construction, manufacturing, automotive, Capex coming back. You will see this also giving a requisite tailwind for a better demand.

Moderator: We have the next question from the line of Amit Murarka from Axis Capital. Please go ahead.

Amit Murarka: On the cost discussion, I just wanted to understand. You mentioned power and fuel fell by Rs. 600 per tonne. Are you referring that in the context of Q4 or in Q3?

Seshagiri Rao: Q3.

Amit Murarka: But then can we expect a similar or a fall in Q4 as well, given that LNG has declined and generally there has been a deflation in the energy costs?

Seshagiri Rao: No, we don't expect similar benefits incrementally to come in, but at the same time, will remain more or less in the same range as far as power is concerned. One addition here is, on a combined basis, we have started in Dolvi, particularly the 60-megawatt power plant. That benefit will come in power cost to some extent, but it is not quite substantial.

Amit Murarka: Also, on your guidance which you have given in the past, are you maintaining your volume guidance and the Capex guidance, just to confirm?

Seshagiri Rao: Here, I will take a minute. The total guidance we have given for the production is 25 million tonnes and sales 24 million tonnes for this financial year. This 25 million tonnes, there are 3 parts, one is 23.6 million tonnes, is for operations on a consolidated basis other than overseas and other than JSW Ispat Specialty Products. We have given for overseas Ohio, 0.7 million production of crude steel and JSW Ispat we have given 0.7 (7 lakhs) tonnes. In this 1.4 million tonnes, there are some slippages. In the JSW Ispat side, we had taken shutdown almost close to 3 to 4 months for maintenance and general market conditions. Actually, there were slippages in the JSW Ispat. In Ohio also, because of the market conditions, they could not achieve the targeted crude steel. If I take out these 2, then the production guidance is 23.6 as against 25 on a consolidated basis. This 23.6 includes Bhushan Power and Steel. We have achieved 17.25 million tonnes so far for 9 months. So, we will be able to achieve the balance in the Q4, and we will achieve our production guidance other than JSW Ispat and Ohio.

Similarly, on the sales side, out of 24, if I take out JSW Ispat and Ohio, our guidance is 22.6. We have achieved 15.51. We are working very hard to achieve even sales guidance by reducing our inventories. As far as our inventories are concerned, during the current quarter, it went up by around 1,80,000 tonnes. We have 2.039 million tonnes of inventory as against 1.35 million tonnes as of 31st March 2022. So, there is an accumulation of inventory. There is a large scope for reducing inventory. In addition to clearing whatever we are producing, our plan is to reduce the inventory because export tax also has gone. So, there is an opportunity to export certain volumes from India by clearing our inventories. With that, we are keeping our guidance even for sales to achieve 22.6 million tonnes.

Amit Murarka: The last question. Could you also quantify the external iron ore sales and revenue booking you did in the quarter?

Seshagiri Rao: We will give you the number separately.

Moderator: We have the next question from the line of Ritesh Shah from Investec. Please go ahead.

Ritesh Shah: Sir, a couple of questions. First is on the Capex. Sir, can you highlight how does the PLI scheme fit in on the Capex that we have indicated? And any color on what Capex we should bake in for FY25?

Seshagiri Rao: The PLI scheme out of the 9 projects which I talked about; 3 projects' Capex is not committed. Those 3 projects are electrical steel majorly and 1 tinplate facility in Bhushan Power & Steel. These are the 3 projects which are not there. These 3 projects together constitute almost close to Rs. 9,000 crores. As we have been guiding, we have to take a call on this electrical steel. We are doing a feasibility study. And in the next few months, we will take the call on these projects. If I take out this Rs. 9,000 crores, the balance Capex for the 6 projects total together is Rs. 5,350 crores. As I mentioned, all these 6 projects are already a part of our Capex program, which includes 5 million tonne of JVML project which will be at Vijayanagar. That includes certain special grades of HR coil covered under specialty scheme. That is one.

Similarly, some tinplate lines, some of the units where we are doing expansion in the wire rod side in Bhushan Power and Steel. These are the projects which are covered under these 6 heads. For this, we are spending Rs. 5,350 crores as a part of overall Capex program.

Ritesh Shah: Sir, my second question is more on spreads. Jayant sir indicated that the coking coal prices will remain flattish this quarter. I just wanted to get a sense because if we look at the spot trend line, it has been marching upwards one way to \$325. Is it on the back of low-cost inventory that we have? Or is it we are optimizing the blend, which will actually give us the benefit of flattish coking coal cost curve on a sequential basis?

Jayant Acharya: It's a combination of a better blend and usually the coking coal, you have an inventory of 60 to 70 days in the system. Therefore, whatever increases are now happening, which you see, if it continues, will reflect in the quarter 1 of next year.

Ritesh Shah: And, sir, a related question. You indicated on local pricing to move up 1st January and 15th January for few products. If we have to look at the benchmark HRC, are the local prices at a premium to import parity math?

Jayant Acharya: From an import parity perspective if we were to see, I think we are by and large similar to the international offers now. International offers have also increased. Therefore, since the international prices have gone up, we do see an opportunity for some increases in the domestic

market as we go along. But we will watch how the international prices move and then take a view.

Ritesh Shah: And sir, last question I will just squeeze in. Sir, how should one look at the profitability of domestic sales versus exports, given the duties have been taken off?

Jayant Acharya: The export numbers, especially the volume part will improve. The realizations, as you were aware, because the international markets were weak, have been lower. Going forward, we see a much improved FOB realization as far as exports is concerned. So, whatever impact was there – the double whammy – one was export duty and the lower export realization, both in this quarter, we will see a positive uptrend. As far as domestic is concerned, I think we have seen an improvement in the month of January onwards. We see an opportunity for this quarter to be better than what we have seen in the last quarter. And international and domestic at this point of time seem to be similarly poised.

Moderator: We have the next question from the line of Indrajit from CLSA. Please go ahead.

Indrajit Agarwal: Two questions. First, on the net debt movement. If you can quantify what was the working capital buildup during the quarter and year-to-date? And what kind of liquidation can we expect in the fourth quarter?

Seshagiri Rao: As far as the finished goods inventory, as I mentioned to you, is around 6.5 lakh tonnes to 7 lakh tonnes which is estimated to be Rs. 4,200 crores. That is the kind of unwinding which can happen but may not happen fully. At least half a million, 75% of that, there is a scope to happen in the Q4.

Indrajit Agarwal: Also, on the NRV loss that we have been recording for the past 3 quarters. As things stand today in terms of prices, if it were to continue for the full quarter, are we likely to see no NRV loss in the fourth quarter? Or would there be still some bit of NRV loss on accounting basis that we will have?

Seshagiri Rao: A 2 million tonne of inventory is there today. That is the higher cost because costs are coming down. In this quarter, there may not be any increase in the cost. Therefore, when the opening inventory is sold, there could be some inventory loss, but it is not significant as we have seen in the past.

Moderator: We have the next question from the line of Pinakin Parekh from JP Morgan. Please go ahead.

Pinakin Parekh: I was just looking at the net debt number, sir, Rs. 69,000 crores. The net debt to EBITDA is at 3.5x. And while it is below the company's stated cap of 3.75, given that globally cost of capital is rising and liquidity is reducing, is the company comfortable with this kind of leverage on its balance sheet? We understand that there would be some working capital release, but on an absolute basis?

- Seshagiri Rao:** Even though we have been guiding 3.75, our effort is to bring it down significantly lower than 3.75. We have been working in that direction. This year is an aberration. That's why you have seen these kinds of slippages in the overall EBITDA to debt. We are not comfortable at these levels. We will bring it down as we have been mentioning. Out of this Rs. 69,500 crores, as I mentioned, FX fluctuation is Rs. 3,400 crores in this. Otherwise, if I take it out, Rs. 66,000 crores is actual debt without FX fluctuation because that can be reversed. If I look at January, rupee started appreciating. So Rs. 66,000 crore versus Rs. 57,000 crores, this Rs. 9,000 crores is the actual increase in the debt. Out of that Rs. 4,000 crores is inventory alone. Therefore, we should be able to manage the debt as on 31st March 2023 at lower levels than what is there as on 31st December. Our aim is to bring it down even below 3.5.
- Pinakin Parekh:** My second question is on steel prices. If we look at the latest Chinese offers, they have gone to \$640 to \$650 a tonne. This implies landed steel prices HRC at Rs. 61,000 a tonne plus/minus Rs. 1,000. Does the company see domestic prices rising to those levels eventually in the next 2 to 3 months? Or should domestic prices remain at a discount to the imported prices? We understand that domestic HRC is around Rs. 56,000 to Rs. 57,000 a tonne?
- Jayant Acharya:** I think domestic HR prices will reflect the change in international numbers. If you were to look at quarter 2 to quarter 3, our realizations fell by Rs. 3,200, primarily in response to what has happened internationally. Prices went down by \$40 to \$45 and that has been reflected in the Indian market as well. Since it has gone up now, we see the increase also now taking place in the domestic market. And we are expecting that this will follow a similar pattern.
- Moderator:** We have the next question from the line of Abhiram Iyer from Deutsche Bank. Please go ahead.
- Abhiram Iyer:** First of all, congrats on reversing the results from Q2. Sir, my first and primary concern is with a bit more clarification on the working capital reversal into the next quarter. Given that we are going to see an inventory release, would we expect the revenue acceptances to come down from the current levels of \$2.3 billion? And could you please quantify how much that might be?
- Seshagiri Rao:** That depends upon the coking coal price. Coking coal price if it is \$300, if we say 6 months usance we avail, then it should be \$1.8 billion to \$1.9 billion. Then it will come down. \$2.3 billion has to come down. But the issue remains is what would be the coking coal price in the future. Based on that, this number goes on fluctuating. Therefore, \$2.3 billion today at the current prices more or less will remain at this level.
- Abhiram Iyer:** You mentioned 50% to 75% maybe of the Rs. 4,000 crores. That's primarily down to a reduction in the current inventory levels?
- Seshagiri Rao:** Current inventory levels and corresponding amount in the debt.
- Moderator:** We have the next from the line of Rahul Jain from Systematix. Please go ahead.

Rahul Jain: Sir, firstly, we have seen a consistent weak performance at JSW Coated despite adding a lot of capacities there. When do we expect some kind of margin uptick in the near-term?

Seshagiri Rao: JSW Coated performance below the expectation is attributable majorly to HR coil inventories. Those inventory losses were taken by Coated. Now in this quarter, if I consolidate the Coated including VIL and VTL, in fact, there is a positive EBITDA of Rs. 11 crores. We also have taken in the current quarter Rs. 105 crores inventory loss. If we take that Rs. 105 crore, if it will not be there in the future, then it is Rs. 161 crores EBITDA will come in Coated. The performance in Q4 will be much much better in the case of Coated. They not only commissioned the CAL line at Vasind, which I mentioned and also in tinplate in Tarapur, the second tinplate. All this will give more volumes for Coated. Coated business, as you know, almost 35% to 40% of Coated production is intended for exports. Export duty really was a big dampener for coated business in the first 5 months of the year, i.e., May to November. Now export duty is removed. Export markets are looking better. So, we will be able to really push more volumes. And at the same time, inventory losses are not there, both together, you will find definitely a very good improvement in Q4 for Coated.

Rahul Jain: Sir, how should we look at our volume buildup over the next 2 years because I think for the near term, you just have volumes from Dolvi, more of a higher capacity utilization and BPSL and Vijayanagar will come in FY25. That is the right way to look at it?

Seshagiri Rao: If you look including BPSL, including JSW Ispat, the total installed capacity fully operational by the end of this financial year will be close to 27.5 million tonnes or 28 million tonnes. So, you will find definitely a good volume growth which no other company would be able to give at least in India. That we can expect. Over and above that, the downstream capacity also has become operational, fully at Vasind, Tarapur, Kalmeshwar, Kapoli, and also at Vijayanagar. Both we have rich product mix and at the same time volume growth. I think, this is the theory. Plus the cost saving projects like coke oven plant, power plants, pellet plants, wherever we have taken up, they all have been commissioned. Over and above that, in FY24 if you look at it, the capacity will go up by another 9 million tonnes by the end of this financial year. All this together, I think, very very positive if we look at the next 2 years.

Rahul Jain: And sir, are you going to maintain the sales mix like exports 20% and remaining domestic? We are going to keep it similar?

Seshagiri Rao: As we have been saying, the export percentage will be 10% to 25%. That is the range. During the first 9 months, it was 12% in this current financial year in a challenging time where export duty was there. So, it will be in this range even going forward at higher volumes also.

Moderator: We have the next question from the line of Bhavin Chheda from Enam Holdings. Please go ahead.

- Bhavin Chheda:** Sir, 2 questions. First on India. Iron ore, I think, was 41% captive of stand-alone operations. How that number will go going forward in FY24? Any incremental mining volumes coming up?
- Seshagiri Rao:** Yes, we are now expanding our capacity in Odisha. We have applied for incremental increase in the environmental clearances. Some of them have come, some of them underway. So, there will be more iron ore coming in from Odisha mines. Therefore, this percentage will definitely go up.
- Bhavin Chheda:** Any number, sir? In terms of million tonnes or whatever number you can share?
- Seshagiri Rao:** It will be in the range of around 50%.
- Bhavin Chheda:** You will eventually reach around 50% by next year?
- Seshagiri Rao:** Yes.
- Bhavin Chheda:** On the international operations, we have seen across Italy, US as well as plate mill profitability improving. Will this momentum continue as steel prices are also going up? But US is still into EBITDA losses, though the losses were lower on a quarter-on-quarter basis at the Ohio operations. What's the outlook there?
- Seshagiri Rao:** As far as the plate mill is concerned, it is doing well. As you have seen, even in this quarter, \$17.2 million they have made in EBITDA. For the 9 months, Baytown has made an EBITDA of \$75 million in this year, whereas in Ohio majorly again attributable to inventory losses. Even the \$22.8 million EBITDA loss which they have posted in the Q3, out of that, \$15.5 million is attributable to inventory loss. So, actual loss attributable to operating profits is only around \$7 million. So, in Q4, we expect that things will be better than what they were in Q3.
- Bhavin Chheda:** And sir, Italy would sustain this kind of run rate?
- Jayant Acharya:** We have got the Italian rail orders and the first tranche has come to us, which will basically be running till almost April-May. We also have very good export orders. With that, we see the Italian operations run very smoothly between now to almost June. The second tranche of the Italian rail order should also be received subject to certain contractual requirements which we need to fulfill. So, that also should be there with us in the coming financial year. So, Italian operations look to be good, supported by the rail business, both from Italy and from the international market.
- Moderator:** We have the next question from the line of Shubham Shukla from Voyager Capital. Please go ahead.
- Shubham Shukla:** My question is around capacity and utilization. Currently, we are having a production capacity of 28 million tonnes per annum, and we're growing to 38 million tonnes. We had a utilization of 89% in financial year 2022. What is our utilization for this quarter and for the whole financial

year '22 and '23, both on a consolidated basis and standalone and for the next financial year with enhanced capacity we see and given the current inventory stress we have now?

Seshagiri Rao: Inventory stress is really temporary, as I mentioned to you, because of the export volumes from the downstream falling. That was the reason why inventories got accumulated. I think we should be able to clear it very quickly.

As far as the future, particularly Q4, the capacity utilization in BPSL was 85%, which improved from 72% in the Q2. So, there is a scope for improving the capacity utilization on a higher installed capacity. There, volumes will increase. Second, the Dolvi unit is concerned, further ramp-up is possible. We were at 92.5% on an average basis all the 3 units together – Salem, Dolvi, and Vijayanagar. So, there could be a possibility of increase in the capacity utilization in all the 3 locations.

Shubham Shukla: My next question will be around the remark which you gave earlier on the coking coal purchase like we don't need them for Vijayanagar facility for Q4 or for the coming few quarters?

Seshagiri Rao: For the next few quarters, we don't need coke at Vijayanagar. Even if small quantities are required, there is surplus at Dolvi. So, we will be able to meet without buying from third parties.

Moderator: We have the next question from the line of Prashant Kota from Emkay Global. Please go ahead.

Prashanth Kumar Kota: Sir, I have actually only 1 question, 2 parts; no second question. This is more strategic in nature. Sir, if you look at the JSW performance and track record over the last 15-20 years and there are some key attributes of JSW. For example, promoter passion for steel and perseverance, capital allocation efficiency, manufacturing excellence, and a nimble footed sales strategy and doing things at scale and having India in heart and business in the mind. With these 7 attributes, any other sector if you see large companies, today we have Rs. 3 lakh crore to Rs. 10 lakh crore market cap. But in our case, one big setback that we have had is the lack of iron ore access despite putting up so much capacity. Nowadays, we are inviting companies to come and put capacity and giving them money – PLI or whatever, land, resources for free. But we have never got that opportunity. Sir, have we registered this as a grievance to the existing authorities who are more considerate, the existing government functionalities and dignitaries?

Seshagiri Rao: Whatever has happened has happened earlier, but this government has changed the law. Under MMDR Act, today, the resources can be given only through auction. In my view, it is a very good thing which has happened. We have got at least some mines in the auction that made us to survive in the year 2020-21 by mining in Odisha. Therefore, today, for us or for any new player, they have to participate in the auctions to get captive iron ore. That we will continue to do and we will increase our captive iron ore in future.

Prashanth Kumar Kota: Related to this, in the RoDTEP, whenever that is put in place, shouldn't royalty on iron ore be given a credit and also the premiums actually, to be honest, to be fair, to have a level playing field for all the companies?

Seshagiri Rao: As you know, the concept of RoDTEP is to be WTO compliant as giving the refund of the duties and taxes where the manufacturer is not getting the setoff. That is the concept based on which they have to fix the quantum of refunds that could be given. As on date, particularly the carbon steel sector, there is no RoDTEP. We have been requesting to provide adequate amounts in the budget whereby the steel sector can be accommodated to get the RoDTEP which is very very important. Whether an X item is to be included here for refund purposes or not, it depends upon whether you are getting this setoff. As a non-MODVATable tax if it is there, it will form part of the consideration by the government.

Moderator: We have the next question from the line of Alok Deora from Motilal Oswal. Please go ahead.

Alok Deora: Sir, I missed one question in between because I got disconnected. The saleable steel or guidance for this year if you could just reiterate? because earlier we had sales of around 24 million tonnes; for this year, what number we are looking at now considering the 9 months sales levels?

Seshagiri Rao: We answered that question. If we exclude the JSW Ispat and Ohio, whatever guidance we have given, both for production and sales, we will stick to that.

Ashwin Bajaj: Alok, you can call us after the call. The question was answered extensively. We will be happy to explain to you.

Moderator: We have the next question from the line of Ashish Jain from Macquarie. Please go ahead.

Ashish Jain: Sir, I had just one question. On the global steel supply side, what is the observation? Are we seeing production ramping up across some of the key exporting nations like Japan, Korea and all? And what is your assessment of how supplies could ramp up globally?

Jayant Acharya: In the last year if you see, the global steel production has corrected downwards and the demand correction in the last year was more than that. In this year as well, we see the production to be impacted in many parts of the world. Certain countries like India will show a positive growth but you will see other countries showing a muted growth by virtue of various headwinds which economically we are facing in the world. As far as exports from China is concerned and the local domestic demand, I think China may see an upside in terms of local consumption and local demand in the second half of this year with the economy opening up. That should be positive for the world as well. The exports from China have been range bound and they have been controlling it in the range of 4 to 5 million tonnes. We don't see that increasing from China internationally. So, next year on the supply-demand side, I think the situation is positively poised from the supply side slightly weaker and demand should be range bound to slightly lower.

- Ashish Jain:** So, basically, do you think the demand supply balance overall could tighten in '23 further?
- Jayant Acharya:** Yes. Because of economic headwinds in many parts of the world, there would be a supply-demand tightening which could happen except for some countries like India and China having a better kind of a performance in H2 domestically.
- Moderator:** That was the last question. I would now like to hand it over to the management for closing comments.
- Seshagiri Rao:** The way I think Jayant has answered with regard to the calendar year '23 is concerned, if we look at '22, there is an 80 million tonne lower steel production in the world. When 80 million tonne lower production is there, automatically lower demand for iron ore, lower demand for coking coal. So, there should not be any reason why these prices are going up. That's why Chinese have made a statement saying that iron ore prices are completely speculative in nature if you look at demand-supply scenario. Same is applicable for coking coal. If you look at 2023 calendar year, the production is not going to be higher than what we have seen in the year 2022. Even in China, assuming that it gets opened up, Chinese policy is more consumption-led growth than investment-led growth. Therefore, steel demand may not be substantially increasing in China. Further, their property and market-related issues are structural in nature. So, it will take time for them to recover. Therefore, overall supply side for steel is still constrained. Europe is not doing well. In that context if you look at it, supply side is constrained. And on the demand side, particularly India's story if you look at it, it looks very very attractive for the next year. Our capacities are only 154 million tonnes. Other than NMDC's 3 million tonne, we are not seeing any big supply in India. And at the same time, the incremental demand is expected to be around 10 million tonnes. Short term if you look at it as far as Q4 is concerned from JSW Steel point of view is that there will be better volumes and there will be reduction in inventory. Costs will be under control because coking coal increases are not impacting this quarter. Therefore, margins will be better for the Q4.
- Ashwin Bajaj:** Thank you, ladies and gentlemen, and please contact us separately if you have more questions.
- Moderator:** On behalf of JSW Steel Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.