"JSW Steel Limited Q2 FY24 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the JSW Steel Limited Q2 FY24 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call, please signal an operator by pressing '*' and then '0' on your touchtone 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: Good evening, ladies and gentlemen. This is Ashwin Bajaj and it's a pleasure to welcome you to JSW Steel's Earnings Call for Q2 FY2024. I hope you had a chance to go through our results materials posted a couple of hours back. We have with us today the management team represented by Mr. Jayant Acharya – Joint Managing Director and CEO, Mr. G. S. Rathore – Chief Operating Officer, Mr. Rajeev Pai – CFO and Mr. Swayam Saurabh – CFO (Designate).

We will start with opening remarks by Mr. Acharya and then open the floor for Q&A. So, with that, over to you, Mr. Acharya.

Jayant Acharya: So, good evening, everyone. Thank you very much for joining us for the Quarter 2 call today. The global economic activity, as all of you know, has been uneven and mixed and while US has remained resilient, Europe has slowed down and Asia ex-China is doing well. We have seen some improvement in China numbers in the last quarter, which has been positive. Inflation is declining directionally, but still above the central bank targets in most of the countries. IMF has forecast global growth to grow at about 3% in 2023 and 2.9% in 2024.

Risks to the outlook are now more balanced than they were 6 months ago, and the likelihood of a hard landing has receded while interest rates may remain higher for longer. The geopolitical situation evolving which we see today is a matter of concern and we will continue to monitor that. In this backdrop, India continues to remain a bright spot with strong economic momentum driven by both manufacturing and services. The government spend on infrastructure remains strong and is a primary driver with specific focus on roads, railways and various other sectors. Recent CRISIL report also indicates investments in infrastructure over FY24 to FY30 to be more than 2x the spend over the previous 7 years.

In manufacturing, defence indigenization, the PLI scheme are driving Capex. Energy transition and investments in communication network are also large themes. With rising per capita income in India, consumption will continue to be a long-term theme. The rural economy is witnessing a gradual recovery, which is evident from the numbers which we see in the 2-wheeler and FMCG sales data point. Going forward with better connectivity in the rural areas with respect to road, electricity, water and communication network, we will see a more inclusive growth and that will

propel per capita income in the rural hinterland, and we will see a strong consumption emanating out of the rural economy in this decade.

The global economic slowdown and evolving geopolitics, as I said, remains a risk, especially from an energy price and inflation perspective. Global crude steel production saw a marginal growth of approximately 2.5 million tonnes during the period Jan to August. While China added 18 million tonnes of production, the rest of the world dropped by about 15 million during this timeframe, so more or less flattish is what we can say on the production side. However, if you look at the demand side as per the latest report of WorldSteel, the global steel demand is growing by 32 million tonnes in 2023 in which China is growing by about 18 million tonnes and the rest of the world is growing by about close to 14-15 million tonnes. The rest of the world growth is incrementally, primarily coming from India, which is a good story as we will discuss when we come to the India scenario.

Now, despite the challenging macro environment, the steel demand globally remains resilient. In China, infrastructure and other steel consuming sectors are offsetting the weakness of the property sector. In India, crude steel production grew by 14.1% YoY in H1 FY24 to 69.7 million tonnes, while apparent steel consumption grew at a robust 14.8% YoY to 64 million tonnes in H1. For FY24, we expect steel demand growth in double digits. This is driven again by a very strong government capex, pickup in manufacturing and with a strong demand from residential real estate, auto sector and consumption in general.

India steel imports have also grown, up by 23% YoY during H1 FY24 to 3.4 million tonnes. Imports into India are rising and hence remains an area which we need to watch out for. During this period, exports have also moderated and while imports have grown. So, that's something which we need to be conscious about and we are watching this space.

Over the last two decades, JSW Steel, as you all know, has delivered very strong volume growth, which was also supported by healthy domestic demand in India. Going forward, the picture becomes even more exciting as India enters the nation building phase, where steel demand accelerates faster than the GDP growth. We have seen this happening in the nation building phase in Japan and China during their period of nation building in the 60s in Japan and in 2000-2015 in China. Given the strong rate of growth of 8% to 10%, which is possible on a larger base, we are looking at about India needing incrementally between 10 to 12 million tonnes of steel every year. To service the strong demand, we will need to add capacities in India which JSW Steel is looking at. JSW Steel is currently adding 8.5 million tonnes of capacity over the next 1.5 years and we will reach a capacity of 37 million tonnes by 2025. We also have plans to add incremental capacities to reach 50 million tonnes by the end of this decade through brownfield expansions at low specific investment cost.

Our current growth pipeline to reach 37 million tonnes accompanied by downstream and cost reduction projects entails the capex of Rs. 52,000 crores until FY26. We expect to fund this through internal accruals for the most part, while keeping our balance sheet robust. We will continue to

ensure that our growth remains capital efficient at low capex per tonne, which combined with our efficient project execution will continue to generate superior shareholder returns.

Before I move to our performance for the quarter, I would like to mention that the merger of JSW Ispat Special Products Limited or JISPL has been completed during the quarter at the end of July. As you are aware, JISPL was a joint control entity with associate accounting treatment prior to the merger. With effect from 1st August, JISPL numbers have been consolidated with JSW Steel, hence the Q2 numbers have August and September consolidated for JISPL while July was associate accounting. Please note that previous periods have not been restated.

JSW Steel's consolidated crude steel production stood at 6.34 million tonnes during Quarter 2 FY24 and grew 12% YoY. The QoQ decline of 1% is attributed to maintenance shutdowns at India operations and lower utilization in Ohio operations due to market conditions in USA. JSW Steel's consolidated sales grew 10% YoY to 6.34 million tonnes and on a QoQ basis grew by 11%. This was driven by a strong growth of 18% in our domestic sales in India. Our share of exports during this quarter was rebalanced to 11% given global headwinds. Most importantly, I think we are happy to note that the share of value added and special products which we have been focusing on has increased to 62% during this quarter.

Additionally, during Quarter 2 FY24, our sales to the auto sector was up 4% YoY and 11% Q-o-Q. The appliance sector grew by 37% YoY and 14% Q-o-Q, while sales to renewable that is solar, and wind grew 34% YoY and 125% Q-o-Q. Our branded sales grew 5% YoY and 16% Q-o-Q. And the overall coated product sales grew by 29% YoY and 17% Q-o-Q. Overall, during Quarter 2 FY24, we have been able to deliver strong sales performance driven by volumes supported by a strong domestic demand, improvement in the sales mix and the product mix through VASP. We have also liquidated inventories of about 300,000 tonnes which we increased in Quarter 1. We remain on track to achieve our production and sales guidance for FY24.

The financial performance has been strong. On a consolidated basis in Quarter 2 FY24, our revenues from operations were Rs. 44,584 crores, up 5.6% Q-o-Q and the operating EBITDA was Rs. 7,886 crores, up 11.9% Q-o-Q with an EBITDA margin of 17.7%. Our EBITDA per tonne on a consolidated basis stood at Rs. 12,436. The profit after tax for the quarter was Rs. 2,773 cores after incorporating the financials of subsidiaries, joint ventures and associates. Our overseas operations in Q2 were impacted by global headwinds, fall in prices and the holiday season. For Quarter 3 FY24, we expect the performance at Baytown operations to remain stable. However, the Ohio operations will see impact of weaker market conditions, but it is expected to be better than Quarter 2, FY24. In Italy, performance will remain range bound in Quarter 3 and going into H2 of FY24. While there was a fall in steel prices in Quarter 1 in India, which flowed into Quarter 2, it was offset by improved domestic prices during August and September. The positive impact of this price movement will flow into Quarter 3 of FY24.

Against the guidance of $45 to $50 per tonne decrease in coking coal costs for Quarter 2, the coking coal cost fell by $54 to $231 CFR through a better blend mix. Coking coal prices have increased

in the last month or two, and this will flow partly into Quarter 3 and partly into Quarter 4 of this year. For Quarter 3, coking coal impact is likely to be about $30 on an average, maybe slightly lower due to blending benefits. We feel the current elevated coking coal prices are not sustainable. They have gone up sharply and is expected to moderate. We have seen some moderation in the last few days. Iron Ore prices have also seen some increase in September and October, which will flow into our costs. Global steel prices have largely bottomed out and we are likely to see some uptick reflecting the increase in raw material costs.

Our net debt stands at Rs. 69,195 crores, up by Rs. 2,398 crores as compared to 30th June 2023, largely driven by the consolidation of net debt of about Rs. 2,200 crores due to the JISPL merger. This was offset by healthy cash generation and working capital management. Importantly, our leverage ratio in net debt to EBITDA fell sharply to 2.52 from 3.14 at the end of last quarter. Our net debt to equity stood at 0.92, also lower sequentially. The net gearing and leverage are well within stated caps of 1.75 and 3.75 respectively. At the end of Quarter 2, revenue acceptances stood at $2.15 billion and capital acceptances stood at $227 million.

On the project side, we are on track for the brownfield expansion at Vijayanagar of 5 million tonnes progressing well and we expect most of the facilities to get completed by end of FY24. The BPSL phase 2 expansion from 3.5 million to 5 million tonnes also remains on track for completion during this financial year, the benefit of which should start flowing in from the last quarter of this year.

The company's capex spend during Quarter 2 was Rs. 3,700 crores in India and consolidated was Rs. 3,816 crores. During H1, the capex spend in India was Rs. 7,795 crores and consolidated capex was Rs. 7,996 crores against the planned capex of Rs. 18,800 crores in India and overall capex spend of Rs. 20,000 crores including international. We will continue to focus on our capex to see that we delivered the projects which we had envisaged on time. We are also focused on increasing our raw material security for our steelmaking operations. We currently operate 4 iron ore mines in Orissa and 9 mines in Karnataka. Further, we have won 7 more mines across Karnataka, Goa and Maharashtra. We will continue to participate in the upcoming mine auctions in proximity to our plants, which strategically and logistically makes sense for us to optimize our overall cost.

In coking coal, we have 2 mines in Jharkhand which will yield about 1 million tonnes of clean coking coal as we had mentioned earlier. It will meet 5% of our current coking coal requirement. We are exploring coking coal opportunities both in India and globally or any other strategic alliance which may come up and are looking at both the quality of the coking coal asset and the commercial viability to lock in coking coal partly for our steel operations.

In 2021, JSW One Platform was launched as a trusted one step digital marketplace for manufacturing and construction ecosystems. The platform has scaled significantly since the beginning and has more than 30,000 registered customers pan India. The annualized gross GMV was Rs. 5,300 crores based on September exit run rate and continues to grow rapidly. JSW Steel holds 69.01% in the JSW One Platform. JSW One raised $25 million from Mitsui of Japan in April 2023.

Going forward, we see a strong domestic demand to continue across sectors as we enter a seasonally strong steel consumption period after monsoon. We expect strong growth in all steel consuming sectors to continue. We are on track to achieve our guidance both for production and sales and better volumes beyond Quarter 2 will be driven by the BPSL capacity expansion and better utilization of capacities at our other Indian operations.

Thank you. This is all from me and I look forward to questions which you may have. Thank you. Over to you, operator please.

Moderator: Thank you very much. We will now begin the question and answer session. We'll take 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 is essentially on iron ore royalty per ton of steel. If we see in standalone statement, that has dropped significantly QoQ. So, just wanted to understand the key drivers of the same.

Jayant Acharya: And what's your next question?

Amit Dixit: Yes. The next question is essentially that there is a significant change in payables that I see almost Rs. 8,339 crores payables and other liabilities in the cash flow negative. So, just wanted to understand the key drivers behind it as well, so these are the two questions.

Jayant Acharya: So, on the iron ore side, I think you will see a differential royalty because the production levels were lower and that's the main reason, royalty rates have not changed in anyway, so that continues. Your second question, I will request Rajeev to respond.

Rajeev Pai: Yes, the payables were down mainly because you would have observed that coking coal prices were lower in Q1 and Q2. That is one of the reasons. Secondly, as JSW Steel was carrying more than adequate cash, we used the cash for an optimization of interest arbitrage between the cash yield versus the buyer's credit interest cost and that was used to pare down the buyer's credit.

Amit Dixit: Also, the coking coal thing, now you know, prices have practically bottomed out, in fact they have increased. So, these payables, we might not see this change in payables going ahead. Is that a fair assumption?

Rajeev Pai: Yes. Actually with coking coal prices cycle, yes, the payables would more or less follow the current working capital cycle. So, with the prices going up, if they sustain, you can expect the payable amount maybe going up.

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

Sumangal Nevatia: My first question is on steel prices in India. If you could just share what are the October prices versus 2Q average and we've seen that domestic prices are quite strong despite weakness in the

regional prices. So, if you could just explain what are the drivers behind this trend and how do we see this domestic price premium over import parity sustaining or kind of normalizing in the coming month?

Jayant Acharya: So, if you look at the Indian steel prices that we had mentioned in our last quarter, there were price corrections in Quarter 1 which had flowed into Quarter 2, but we saw improvement in prices in August and September after the fall, primarily driven by good demand growth. In the first half of this year, we saw demand which was very strong, 14.8% growth in the India steel demand and that has been one of the primary drivers and that has reflected across sectors. There has been some price increase in the month of October as well and this would flow into quarter 3 (October - December), which will offset to some extent the costs which are increasing because of the price of coking coal and iron ore. It's very difficult to forecast going forward how the prices would play out, but I would like to put it this way that the economic momentum in India we feel will continue to be strong. The growth in GDP to steel demand will structurally be high. The GDP to steel elasticity, which we have seen in other countries during their nation building phase, as I had mentioned in the past has been 1.5, in the last year it was 1.8 odd in India and in the first half it has been 2.0. But going forward, I think it is very safe to say that in the medium term an 8% to 10% growth in the steel demand in India is a very likely scenario, which means incrementally we will add between 10 to 12 million tonnes every year which will call for more capacity expansions as well. So, this demand is your main drivers. Infrastructure being a prime puller, but manufacturing, led by automotive, general engineering, energy transition, improvement in services and consumption through inclusive growth, I think what we are seeing when I say inclusive growth is the rural side where 65% of our population resides. The connectivity to the rural hinterland through water, electricity, communication network and highways are enabling the rural side to basically participate in the economic activity in India that is improving the per capita and going forward, we are already seeing some green shoots. I think the rural side will improve and come out of the impact which they had faced in the pandemic. So, this strong demand in India will continue to keep the prices, I would say range bound. There may be some blips, but the demand will continue to be strong.

Sumangal Nevatia: So, just a follow up, is it possible to share some quantification as to what are the October prices versus last quarter average, number one? And number two, given the price premium, do we expect the imports to increase in coming months which could create some pressure on the domestic prices?

Jayant Acharya: No, I think difficult to give exact numbers as to what the prices are, but I think what is important to note that the international prices according to us have already bottomed out and the current raw material prices which will flow into steelmakers' cost in the next 2 months internationally as well will be much higher and therefore either one has to correct, either the raw material prices will come down or the steel prices will reflect this increase in raw material cost. So, therefore we feel that the steel prices are likely in the short term to improve somewhat internationally, which would be positive for the steel industry at large. Having said that, I think coking coal prices also we expect to moderate because they have gone up by more than $100 over the last 1.5 months and that has

seen some moderation in the last 2-3 days and we expect that to moderate to more sustainable levels.

Sumangal Nevatia: Understood. So, just my second question is on your capacity addition map which you have given. Now you're talking about the potential of 13 million tonnes addition to 50 by FY31, which only implies a 5% kind of a CAGR if we count from a base of 37 million tonnes in FY25. Now this is not tying up with our bullish outlook on steel demand and also if we look at the last 5 and 10 years of growth which we've done to our capacity, so just wanted to understand what are we missing here and how should we read this next 5-year roadmap?

Jayant Acharya: So, I think the way you should read it is that 37 million tonnes in India, we are on track. Our focus on completing our 50 million tonnes by 2030 is our aim. When I say by 2030 doesn't mean the year 2030, it means it could be before and that is what is our effort because these are brownfield expansions, they can be done faster, and we have been having a good track record of execution. So, we should be able to initiate some of these brownfield expansions quickly. So, we may be able to do this at a faster pace, but 13 million tonnes and then when you take another 3-4 years, yes, it's not bad because you have to look even at the capex allocation which we need to do in a manner which is financially prudent and keeps our ratios stable. Our earnings from the 37 million tonnes of capacity which will flow will fund the internal accruals, will fund the capex of 50 million tonnes and as part of our50 million capacity starts yielding positive returns in terms of revenue and profits, we'll start funding the next phase of expansion.

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

Rahul Gupta: I have two questions. First, your second half implied numbers for production and sales show that there is no material growth and it's broadly stable versus the second half last year. So, any specific reason why you are not upgrading your production and sales volume guidance? That is number one. And second, any number on what kind of steel inventory you are sitting on? The reason I'm asking is because the delta in production and sales in the second half for domestic numbers would imply excess inventory of around 0.5 million tonne, and with the risk of imports rising in the near term, could this mean that we end up with excess inventory in the system for the industry? These are my two questions. Thank you.

Jayant Acharya: So, from a volume perspective, I think you will have to see that in this particular second half of this year, we are not adding incrementally too much of capacity. So, the BPSL Phase 2, which will give us some capacity increase, will play out only partly this year, the balance will be from improvement in existing operations. So, what we are on track is what we have given as per guidance and both in terms of production and sales. In terms of inventory, I didn't gather that question too much. I think our inventories which we had increased in Quarter 1 overall has been liquidated and whatever we increased in Quarter 1, by and large 300,000 tonnes out of that we have already liquidated. What did you have in mind when you were talking about 500,000 tonnes?

Rahul Gupta: Yes. So, if I look at the delta of implied production and the sales number for the second half for the domestic business, it leaves us with around 500,000 tonnes of excess steel. And with the risk of imports rising in the near term for the industry, I just wanted to understand your perspective on how to look at the overall inventory for the industry.

Jayant Acharya: No. If you look at especially, let me talk about our numbers. When we look at crude steel to finished steel, you'll also have to factor the yield as well. So, only thing I can say, I'm not too sure how, our investor team people can help you with the calculations, but we are not adding inventory during the second half, as a matter of fact, our effort is to try to see if we can liquidate a little bit more inventories of what we carry on 1st October during the second half.

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

Ritesh Shah: So, first is on the regulatory side. From an industry standpoint, when it comes to the Indian equivalent version of CBAM. Secondly, on the National Mineral Index, it was spoken about earlier, any specific updates over here that's the first question. Second is, will we be okay to look at diversification when it comes to mining, there's a lot of noise around lithium, manganese in India. So, will this be something of interest to JSW Steel or JSW Group? That’s the first question sir.

Jayant Acharya: So, your first question was on the CBAM regulatory mechanism in India. So, on the carbon market, let me put it this way that the Government of India, you must be aware, has formed 13 task forces in this matter to basically look at various initiatives on sustainability. We are looking at couple of levers in India and JSW Steel is doing similarly. The first one is the energy transition which if you remember the RP obligations, which have been laid down by the Government of India, has been in place since the last few years and that has regularly been on the increase. So, that will basically force companies to transit to more renewable energy over time. And that's one thing which is positive. JSW Steel's intention is also to see that we increase our renewable energy in a manner that we are phasing out as much of our thermal energy by 2030 as possible. The second one is on energy efficiency and the Government of India here also had, if you recall, put out a scheme called Perform Achieve and Trade, which defined certain norms to be achieved from a benchmark perspective and otherwise you need to buy energy certificates and that also is forcing companies all across to look at better energy efficiencies in their operations. And this is something similar to what the ETS scheme, which is available in Europe, although that is for emissions. Number three is that the Government of India is looking at new market mechanisms. New market mechanisms will likely be announced next year. Those will be carbon market initiatives which will have a certain carbon tax, which will be charged against a particular benchmark, or you will have to buy carbon certificates in the market similar to what you have in Europe. So, this will be another good initiative because some of the taxes which we are already paying in various forms in India will also get consolidated under this. And the 4th lever is the green hydrogen mission. The Government of India has already defined the green hydrogen mission up to 2030 and efforts are on way to see that it becomes commercially more viable. And the 5th lever is to look at carbon capture, use and storage. Agencies such as the NITI Aayog is already looking at creating hubs, identifying locations in the country where you can put up CCUS, create the infrastructure and the logistics support

system as well. So, there is a lot happening in India and in JSW Steel also, we are using levers of renewable energy fully. We are in our process to improve our energy efficiencies, process efficiencies and raw material efficiencies. We are trying to use circularity to see that we use our scrap, our gases, our waste into the system and we have also embarked on a trial plan for hydrogen. And as in Vijayanagar, as we had declared last time and as the trial progresses, we will have more detailed data points. As hydrogen becomes more evolved and becomes commercially more viable, we'll incorporate more hydrogen into our systems or any other disruptive technologies which may come in. We will continue to explore carbon capture and use. There are various alternatives till such time other things fall in place. So, I think as a country and as JSW Steel, we are getting well prepared. However, every country has their own heterogeneous mix of technologies, raw material and demand. So, internationally we'll have to work together to see that one methodology and one measurement metric is defined to measure carbon and there is a need to define the scope and boundary internationally together so that we have one common framework which we can work upon. Your second question on lithium batteries, I think on mining, let me put it this way that our focus at JSW Steel right now will be to see that we integrate our raw material backwards with respect to iron ore, coking coal and kind of minerals, which go into our own assets. JSW Group, differently could look at any other mining opportunities which may come up, but I would not be able to comment on that right now.

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

Satyadeep Jain: Couple of questions, Mr. Acharya. Firstly, on the acquisition, we've talked about organic growth and in the media, it was being reported that JSW is also evaluating certain PSUs including NMDC. There are certain reports that may not be on the cards anymore. Just wanted to check if you're still in that process. Have you heard any communication from ministry, DIPAM or you still looking at that asset? That's the first question.

Jayant Acharya: So, we have submitted our EOI as we had informed earlier for NMDC, and the due diligence process will follow the steps laid out by the government and NMDC. We do not have any official notification for anything to the contrary. So, we will continue to look at the due diligence process as it unfolds and if it makes any strategic and economic sense, we will look at the asset going forward.

Satyadeep Jain: Second, touching on the question on prices in Indian market being higher than import parity prices and generally despite a very tough economic environment, JSW has been reporting very good EBITDA per tonne. Is there a risk to or is there a merit in continuation of the basic custom duty? Have you heard anything from government on justification for continuation of that, or any study, or do you continue to see merit in some of the supportive mechanisms?

Jayant Acharya: So, from a price perspective, I think you know, as I said, the raw material prices internationally have gone up and the steel prices internationally have bottomed out. With the current raw material prices, I think many of the international producers will have difficulty on the margins, therefore

there would be a reflection of a higher steel price very likely in the coming months, should the raw material prices continue. However, we do expect some moderation in the raw material prices, especially the coking coal part. I think Indian prices, I would say are not high. What you see as at times a concern is imports coming into the country at predatory prices. Somebody at a particular location in the world has some excess stock which they want to offload, that is being offered at lower numbers doesn't mean they are selling in their country at those numbers their entire production. That's not the fact, but they are trying to offload excess production because there is a visibility that India has a good demand. That certainly is a matter of concern, and I think we are watching that space. We need to be cognizant as a country to see that we do not make ourselves vulnerable to unfair trade since India is adding capacities and as per the National Steel vision, the steel industry is trying to put in a lot of capacities in India. I think the government would also look at these numbers. In the past also they have stepped in as and when required, and I'm sure that appropriate trade remedial measures will be looked at should there be a concern which increases.

Satyadeep Jain: Just one quick follow-up question to Ritesh's question, just on the CBAM that you mentioned collection of taxes like ETS in India and CBAM also talks about a fair price for carbon, they seem to be okay as long as domestic collection of carbon cost in the exporting countries there so would there be a price for CO2, let's say Indian carbon market evolves and there's a price of CO2? Does it have to be maybe similar to the EU ETS price or can that price be lower than that price?

Jayant Acharya: I think the price because it's a new market mechanism, the price will find its own level is what I feel. But I think it's early days to comment on that, but that's the way it should work and whatever carbon prices are established here over time, will get set off when you export the products from here into Europe or any other region for that matter. But I think what is important for, I think all of us to understand that the strong demand growth which we see in India over the next few years, I think we'll ensure that exports may not be really that high. I think what we will see is more of engineering exports from India. Your merchandise exports for engineered goods will increase and that is, I think, a more probable situation than going into the decade for more of steel exports as we increase our capacities because the domestic demand for steel will be very strong.

Moderator: Thank you. The next question is from the line of Amit Murarka from Axis Capital. Please go ahead.

Amit Murarka: So, just on the question on the import parity and the import volumes. So, we have been seeing like a steady drop in export realization, I mean, the Chinese export prices as well as the regional prices that India is holding up and in fact growing. So, just wondering what holds back the importers from kind of benefiting from this arbitrage that you're seeing in the local prices and import prices. Could you help understand what are the roadblocks they would be facing in this regard to not import more in that sense?

Jayant Acharya: So, if I understood your question correctly, are you saying that why the arbitrage is not being used to come into India? Is that what you are asking?

Amit Murarka: Yes, correct. That's the question that since there is such a big gap now like, but still imports have not risen as much as probably they would have.

Jayant Acharya: I think what you need to see is what is the fair import price at which standard material for a particular requirement will come in? I don't think the gap for that will really be that much. I think the gap will probably be in the vicinity of 5% or so today. In some of the lower priced imports which are coming into the country, there may be a differential number but that is something which people are trying to offload excess stock. I don't think those are being done more by mills. It is more probably a little bit more of the trade flows, which are holding stocks and getting out of those stocks. If somebody were to convert with the current raw material, then the prices at which some of those imports of the lower price have come in are not sustainable. So, therefore I don't see that as really a continuation going forward, I think the prices will reflect a higher raw material cost going forward. With that, the gap in steel prices in India will not really look that high, I think we will be close to what the international prices are. Even today if somebody was to import material, which is as per their requirement of grade, size and mix, I don't think we are very far off from what the international numbers are.

Amit Murarka: Got it. Thanks for the elaborate explanation. And also, on coking coal like you mentioned your consumption cost was $231 in the second quarter, whereas the third quarter expectation is $30 higher. Generally what I've seen in coking coal has been upwards of $300 actually for the last three odd months like how come the increase then is I mean only $30? Was there some inventory which was purchased earlier at lower prices? Just could you help understand that?

Jayant Acharya: Yes. So, usually we have inventories of 2-2.5 months in the system and that is something which basically will support some part of the Q3. But if these prices were to continue, then the impact of the higher prices will flow into Q4 as well. But in the last 2-3 days, you would have also observed there has been some moderation in the coking coal prices. We'll watch how this coking coal goes into the next few months.

Amit Murarka: Sure. And lastly any update on the auto contracts, the negotiations like will there be a drop this time around or how do you see that?

Jayant Acharya: No. The auto contract negotiations will proceed as per the normal discussions with them. No, I don't see a drop in this quarter at all.

Moderator: Thank you. The next question is from the line of Abhiram Iyer from Deutsche Bank. Please go ahead.

Abhiram Iyer: So, what I was, first of all, just wanted to congratulate the results. The other question that I had was how are you looking forward to meet the capex requirements for the rest of the year as well as for FY25, given that are you still seeing conditions favorable for debt to be taken onshore or is the reduction in hedging costs making offshore debt more viable for you now?

Rajeev Pai: So, we will continue to source both as part of our risk management strategy. As you are aware, domestic liquidity is extremely strong. So, we will tap that liquidity, including the domestic capital market, also considering the hedging cost currently is low, there is good liquidity in ECB. So, maybe dollar bond market liquidity may not be as good, but in the ECB and ECA categories, there is adequate liquidity which will be used to finance the capex. As a policy, we also try to ensure that all our capex projects are properly tied up in terms of financing. So, we don't see any challenge in the second half in terms of financing this capex.

Jayant Acharya: Most of our capex also we'll focus through the internal accrual system in any case and some of the debts which we will refinance is what Rajeev was telling you, the sources by which we can do that.

Abhiram Iyer: Got it. And just another thing on your acquisition plans that you're sort of focused on with under recent reports, especially increasing your sourcing for coking coal. Again, would the financing here would be looking, as you mentioned, the ECB route and the onshore liquidity or can we get any more thoughts on your plans there?

Rajeev Pai: So, there are good models of the structured finance which we have used earlier, and we will continue to use. We normally try to do the acquisition financing in such a way that it is non-consolidating, and it is more on the target companies' cash flows. So, we will continue to do that, but in such cases the majority could be the foreign currency borrowings.

Moderator: Thank you. The next question is from the line of Ashish Kejriwal from Nuvama Wealth Management. Please go ahead.

Ashish Kejriwal: I have three questions. One is the kind of price hikes which we have taken and the kind of outlook which we have for coking coal price and iron ore, is it possible to see it or give a sense that these prices are sufficient to offset their higher coking coal and iron ore prices, especially in third quarter when we have some high volume also?

Jayant Acharya: So, Ashish, the price increase which we have taken in August, September and also part in October will flow into the October - December quarter and that will partly offset these costs increase which is happening because of coking coal and iron ore.

Ashish Kejriwal: Yes, that's what I was asking sir means is it enough to offset or we need to take further price increase to offset completely?

Jayant Acharya: I think by and large we are on track. If these prices carry forward as it is and as far as the cost increase is concerned, we will be able to offset a major portion of that.

Ashish Kejriwal: And the second thing is in terms of acquisition opportunities.

Jayant Acharya: But I think one thing you need to keep in mind, your Q4 because some of the cost of coking coal if it continues in this manner will flow into Q4 and that's something which we'll have to address separately in Q4. But as I said, either the raw material prices will correct which I hope looking into

the coking coal numbers, they look that they will moderate, or the steel prices will also reflect an upward movement. A combination of both, I think, will play out in Quarter 4, but we'll know more as we go into the quarter.

Ashish Kejriwal: Yes, because of the kind of fluctuations we are seeing, I think we go quarter over quarter, at least in third quarter we are more or less safe. Second point is sir, in terms of acquisition opportunities, we highlighted again and again that we can go looking for coking coal or iron ore. So, my question is, have we been approached or are we looking for any iron ore mining to acquire in India and in coking coal also what we have been reading the newspaper about Teck resources mining, any status or any update you can give on that?

Jayant Acharya: So, iron ore, we continue to focus on first to integrate and we have currently as I mentioned 13 operating mines. We have won 7 more mines across Karnataka, Maharashtra, Goa. This will be developed as quickly as possible. I think Karnataka will come sooner, some part of Goa and then Maharashtra. I think our effort will be to participate in other mine auctions which are going to come in various states which make logistics sense for us where we can optimize our costs. Coking coal, as I mentioned, we are developing those two mines which we won that would flow in some clean coking coal into our operations. We will again look at more coking coal mines which may come up for auction. Also, we will look at coking coal linkages, let's say coal linkages where we'll set up washeries and where soft coking coal is available, we would wash and be able to blend that with our existing coking coal which we are importing. That is the second step. We will continue to look for some strategic assets internationally wherever the coking coal qualities are something good in terms of what we need in the blend and as long as it makes strategic and commercial sense to take a stake or a strategic alliance. So, that effort will be something which we will look out for as we go into the remaining 1 or 2 years.

Ashish Kejriwal: My question was more on iron ore domestically. Are we seeing any inorganic opportunities domestically in iron ore?

Jayant Acharya: First, yes, there could be one, but I think that's something which you are aware about that one of the assets right now is in the market and that's a combination of steel and mines both. But I think that is something which is premature right now to comment. If there is an asset which is coming and which is interesting, we'll certainly look at it especially on the mining side. Till that time, we will continue to focus on whichever mines which we have won and develop them as fast as possible.

Ashish Kejriwal: And sir secondly, in terms of Karnataka mining cap, I think there was a mining cap by Supreme Court. Have you heard anything that they are in the process of increasing it because from next year onwards we will require more iron ore? So, any update on that front?

Jayant Acharya: So, the current Karnataka cap if I recall is 50 million tonnes. And so if you really look at the way the numbers pan out, I think we will be able to manage our next phase of growth quite comfortably. Our current mines which we have in Karnataka are going to give us 7 million tonnes of iron ore.

There are some environmental clearances which have already been applied for which are likely to rectify in these remaining few months, that will give us an additional 4 million tonnes. With that, we will have 11 million tonnes of iron ore captive in Karnataka from our existing mines. We have won three more mines in Karnataka which will give us another 5 million tonnes, which will also come in taking our total captive in Karnataka to 16 million tonnes. Between NMDC and others, if you were to really look at NMDC and one more major player, they account for almost 21 million tonnes of the production. The balance 28 million tonnes is spread between various miners. So, we will be able to look at, I would say that from NMDC and that other major miners anywhere about two-third of their mining quantum and the balance quantity we will be able to source from the 28 million tonness which is available in the mine along with others, which is within the cap. So, from a next phase of expansion, we don't see any concern. We would require in the vicinity of 33-34 million tonnes, 16 million from captive. I think from NMDC and Sandur and the other mines which we have will be available to meet our requirement which we have for Karnataka. Should there be any shortfalls in between as we do, we take the iron ore from other states including our mines in Odisha.

Ashish Kejriwal: So, that means till 19 million tonnes we don't fill that, at 50-million-ton mining limit we can satisfy our requirements from Karnataka, most of them.

Jayant Acharya: Yes.

Ashish Kejriwal: And sir, lastly, have we seen, or have we heard anything about government somewhat restricting imports by not renewing BIS certification for most of the traders and which may reduce imports going forward or that could be the fear in the market and because of which we are able to sustain higher prices as compared to the imported landed cost?

Jayant Acharya: So, I'm not too sure whether Government of India is controlling anything. But from perspective of BIS, I understand also from the market that there are one or two players where the BIS are expiring. And I'm not too sure how they are taking it forward to extend their BIS, but it is important for us to note as a country that most countries have very strong quality code mechanisms which have to be adhered to, and I'm sure that India will also, you know, India is taking measures to see that BIS is a norm, which has to be adhered to by everybody. So, we will see how that plays out. As of now, I have not heard anything about any steps being taken to contain BIS by the government.

Moderator: Thank you. The next question is from the line of Rajesh Majumdar from B&K Securities. Please go ahead.

Rajesh Majumdar: So, I had just a couple of questions. One was that going by your narrative on the Indian steel growth as well as the fact that we don't need to export more as well as what you said on the CBAM, is it fair to assume that our next phase of growth to 50 million will also be led primarily by the blast furnace route or are we also considering electric arc or any other technology to lead to that kind of a volume number? That was the first question.

Jayant Acharya: So, the BF-BOF route in India, I think for some time may continue, but I think what you will see in terms of technologies is various technologies coming in to use the gases into the blast furnace which will reduce the overall coal consumption, the solid fuel charge by as much as 30%, improving kind of further steps to reduce the solid fuel for heating can be done through, you know, heating can be done through electricity that will further reduce some of the carbon input into the blast furnaces. So, we will be able to reduce BF-BOF through various technologies which are coming up. Carbon emissions would come down. So, that is one step. The second one is that in our locations, one is that we are looking at a combination of DRI, electric arc furnace, combination of natural gas and hydrogen which will play out as we go into these next few years. The hydrogen trials will first be taken at Vijayanagar. We are looking at other locations where DRI and electric arc furnace through natural gas can also be taken up. That will also have carbon emissions below one and we will be able to increase the capacities in those as well. And with hydrogen becoming more viable, natural gas will get replaced with hydrogen and that would be zero, I wouldn't say zero, but it will be a low-carbon emitting product from JSW Steel. So, as we grow our capacities, we're conscious that we reduce our carbon emissions. And as I said, various steps we are taking, and we'll continue to monitor that.

Rajesh Majumdar: Right, sir. And my second question was sir what is your total requirement of renewable power to phase out the thermal capacity by FY30 and what is the total capex geared for this, just for the renewable power?

Jayant Acharya: So, in terms of renewable energy, as we had mentioned earlier, we already have 1000 megawatts in the pipeline. Out of that, part of that is already operational at Vijayanagar. The balance will come in by December to Quarter 4. Will all be working and in place. We are increasing our renewable energy that will fall in place by next year, within the next year. The additional requirement of renewable energy, we are already in discussion with the various suppliers including JSW Energy which has renewable energy assets, and which are willing to put in renewable energy facilities in case those are required. We are studying those and at different locations we will be collaborating with the suppliers to see that more renewable energies are added. If you were to look at, I think overall renewable energy requirement, if you have to replace 100% at a 50 million tonne level, we would require close to 7 gigawatts, which is about 7,000 megawatts of renewable, out of that 1,000 will already be there and the balance 6 gigawatts is something which we'll have to put in place over time as we transit into a full renewable energy space.

Rajesh Majumdar: So, sir that is itself another Rs. 30,000 crores of capex approximately on the renewable space, if you talk about additional 6gw approximately.

Jayant Acharya: That's not something which we are putting in. Yes, that's something which the supplier of renewable energy will put in. Basically, the capex will get done by them and we will have contracting to basically buy renewable energy at a particular price. And if there is any need for equity infusion for any captive status, we will do that suitably, but those will not be very much.

Moderator: Thank you very much. We'll have to take that as the last question. I would now like to hand the conference back to the management team for closing comments.

Jayant Acharya: So, I think as we said, the Quarter 2 has been driven by very strong volume growth driven by the domestic demand, improvement in the product and sales mix. Our value-added sales increased by 15% Q-o-Q, 62% share driven by automotive, appliances, renewable and coated. We have liquidated inventories of 300,000 tonnes in this last quarter, a traditionally weak quarter. I would like to also say that while the overseas numbers have been under pressure in the Quarter 2, in Quarter 3 we see that Baytown will remain more or less stable. However, Ohio will still see some impact due to weaker market conditions, but it is likely to be better than Q2. Italy operations will remain range bound going into H2, supported by rail orders from the Italian Government and exports from Italy. The raw material increase we discussed already, some part of that we are seeing moderating. So, we see that some part of the cost of coking coal will play into Quarter 3 and part into Quarter 4. However, the prices, which have increased in August, September and October will mostly offset the cost in Quarter 3. We will look and watch how the coking coal and iron ore progress as we go into Quarter 4. Internationally, we feel that the steel prices have bottomed out and with these raw material prices, it is likely to see an increase and reflect that in the steel prices going forward. We are on track to achieve our guidance on production and sales for this year. Better volumes in H2 will primarily be driven by the capacity addition at BPSL and better capacity utilization at our existing Indian operations. I would also like to end with saying that JSW Steel, as you know, has continued to deliver strong growth in terms of volume, revenue and total shareholder returns. In the last 20 years, our capacity growth of 15% has yielded revenue growth of 24% and EBITDA growth of 22% and a total shareholder return of 26%. In the last 3 quarters, we have reported good EBITDA per tonne and as the India demand continues to be strong and we feel that it will continue to go into the medium term, we are adding capacities to see that we are able to participate in this growth. While doing so, we will ensure that the growth remains capital efficient, which combined with our efficient project execution will continue to generate superior shareholder return. Thank you very much.

Ashwin Bajaj: Thank you, ladies and gentlemen. If you have any other questions, please feel free to reach out to us. Thank you.

Moderator: Thank you very much. On behalf of JSW Steel Limited, that concludes the conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.