JSW Steel Ltd. Q2 FY22 Earnings Conference Call

Hosted by Prabhudas Lilladher Pvt Ltd.

MANAGEMENT

Mr. Seshagiri Rao M.V.S – Joint Managing Director & Group Chief Financial Officer – JSW Steel

Dr. Vinod Nowal - Deputy Managing Director - JSW Steel

Mr. Jayant Acharya - Director, Commercial & Marketing - JSW Steel

Mr. Rajeev Pai - Chief Financial Officer - JSW Steel

Mr. Ashwin Bajaj -Group Head, Investor Relations - JSW Steel

Operator:

Ladies and gentlemen, good day and welcome to the Q2 FY22 Earnings Conference call of JSW Steel hosted by Prabhudas Lilladher Pvt Ltd. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * and 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kamlesh Bagmar from Prabhudas Lilladher Pvt Ltd. Thank you and over to you sir.

Mr. Kamlesh Bagmar – Prabhudas Lilladher Pvt Ltd:

Thank you Rituja. Good evening everyone and thanks for logging in for JSW Steel Q2 FY22 Earnings Call. Firstly, I want to thank the management of for giving Prabhudas Lilladher Pvt. Ltd. an opportunity to host the call. Now I would hand over the call to Ashwin Bajaj, Group Head – Investor Relations to introduce the management and take the call forward. Over to you Ashwin.

Mr. Ashwin Bajaj – Group Head, Investor Relations, JSW Steel Ltd:

Thank you Kamlesh and thanks for hosting the call today for us. Good evening ladies and gentlemen, this is Ashwin Bajaj and it's my pleasure to welcome you to JSW Steel's earnings call for Q2 FY22. We have with us today the management team represented by Mr. Seshagiri Rao – Joint Managing Director and Group CFO, Dr. Vinod Nowal – Dy. Managing Director, Mr. Jayant Acharya – Director Commercial and Marketing and Mr. Rajeev Pai- Chief Financial Officer. We will start with opening remarks by Mr. Rao and then open the floor for Q&A. So, with that, over to you Mr. Rao.

Mr. Seshagiri Rao – Joint Managing Director and Group CFO, JSW Steel Ltd:

Good evening to everybody. I welcome you to the briefing of 2nd quarter performance for the financial year 2021-22. The 2nd quarter generally is a little subdued due to monsoon in India. So, at the beginning of the quarter we thought we had to tackle about subdued demand in India and we need to do more exports. But, the kind of surprises and challenges which have come in, the energy crisis, that shortage of energy across the world has brought lot of volatility. Cooking coal prices have shot up to unsustainable levels of $400 per ton in a very short span of time. Over and above that, the Chinese policies which are wheeling around two themes of widespread or common prosperity and also the decarbonisation, those policies which have been finalised by China, have led to a visible slowdown in the overall economy. That also led to lower investments in the residential property sector. We have seen a contracting steel demand in China month after month. In the month of July, we observed that the steel demand has fallen by 13%, which went down in the month of August by 18%. In the month of September, it went down by 24%. So, the steel demand in China in the first 9 months of the calendar year has fallen to 731 million tons as against 736 million tons in the previous 9 months. So, there is 0.7% lower demand in China majorly due to the reasons which I just explained. The rest of the world is not exactly the way the Chinese steel demand has fallen. Notwithstanding the re-resurgence of infections in some regions and the resultant lockdowns and energy crisis in some of the regions, we have seen good steel demand as far as rest of the world is concerned majorly due to strong manufacturing activity, lower interest rates and government focus on infrastructure and energy transition; these are the reasons which we could see why the steel demand in the rest of the world was stronger. Taking these factors into account, WSA when they gave short range outlook in the month of October, they were exactly on dot. They said the steel demand in the current calendar year will grow by 4.5%. Whereas if you look at region-wise breakup of this demand, China's demand will come down by 1%, which we already mentioned that it has come down by 0.7% in the first 9 months, which is more or less similar to what WSA has been saying. In the rest of the world the steel demand will grow by 11.5%. So, what I would like to share with you is that at one side when Chinese steel demand is falling, the rest of the world steel demand is reasonably okay. In this context, if you look at as far as India is concerned, we have consumed 49 million tons of steel in the first 6 months of this financial year which is almost 13-14 million tons more than the corresponding period of last year. Generally, the 2nd half would be much better. Already we are seeing signs of improvement in the construction infrastructure projects following the monsoon. So, we expect that as we get into the beginning, that demand in the 2nd half will be strong and we will be close to 110 million tons as we have mentioned.

In addition to this there are some more developments which I would like to share with you. I'm very happy to say that our respected Chairman and Managing Director Mr. Sajjan Jindal, has been elected as the Chairman of World Steel Association for the year 2021-22. This is the first time an Indian representative is occupying and serving this position. You also must have noticed in our communications to stock exchanges and press releases, we have issued the world's first dollar denominated sustainability linked bonds from the steel sector globally first time. I'm also happy to share that JSW Steel secured Steelie Awards from WSA for Excellence in the Lifecycle Assessment for Development and Promotion of New Product Netsteel TMT Bar. In addition to that, one historical notable event that has happened is the commissioning of the first time 5 million ton brownfield expansion commissioning at once in India. We have commissioned the largest blast furnace along with the melting shop 350 ton converters. This is a very important event in the history of JSW Steel. As we have guided that there will be a production of 1.5 million tons incrementally from our expansion project, and we will be able to sell 1.4 million tons on this expansion and now it will be a reality. I'm also happy to share that it is a very smooth start-up and we are reasonably confident that we'll be able to ramp up the capacity quickly.

In this context, if you see our results, it is higher than our consolidated quarterly revenue, highest operating EBITDA and highest net profit. The volume numbers, as already shared, is 4.1 million tons of crude steel production, 91% capacity utilisation. If there were no shut downs at Vijaynagar plant for converters and also at Salem plant in blast furnace, the capacity utilisation could have been higher. That is why you would see sequentially a flat capacity utilisation and production. The sales on a standalone basis is 3.787 million tons and on a consolidated basis it is 3.83 million tons. But what is interesting in the sales profile is that our exports have gone up. As I mentioned, the domestic demand in this quarter is a bit subdued. We have supplemented with higher exports in this quarter. It is 38% of the total sales - a growth of 22% quarter on quarter in the overall export mix. Our value-added steel product mix has been at 60%. It was 51% in the previous year. So, we have maintained, like in Quarter 1. In Quarter 1 it's around 61%. We're more or less at the same level as regards to sale of our valued added steel products. Our retail sales have gone up quarter on quarter by 25%, our branded sales have gone up, our sales in the solar and appliance segment have gone up quite substantially on quarter on quarter or year on year. Therefore, the highlights of our sales mix. But in spite of that, if you look at the sales consolidated numbers, it is 3.80 million tons, and on a year on year basis it was slightly lower due to mainly accumulation of inventories which has happened in the 1st half of this financial year. It is almost half a million ton of accumulated inventory when I compare it with 31st March 2021. If I compare it to 30th June, it is 1 lakh ton more inventory. As we have been explaining the kind of constraints in the port logistics, availability of containers and very high shipping price, they are some of the reasons where the port stocks remained at elevated levels even during this quarter. Our effort going forward is to reduce these inventories that are accumulated (almost half a million tons) in the 1st half of this year. If I look at the blended NSR cost and EBITDA per ton on a standalone basis, the blended NSR quarter on quarter went up by 5%, but the cost pressures were severe. There are two points – one is, cooking coal prices have gone up globally. We have been guiding that in this quarter there will be a $30 per ton incremental cost we need to absorb under cooking coal that got reflected in the consumption. But what has happened in the iron ore prices because of the lower demand by China. The price has crashed from $230 plus dollars globally to $120 per ton which is almost 50% reduction globally. The Indian iron ore prices have not moved the way global prices have moved. That is why we have to bear the brunt of very high unsustainable cooking coal prices that have gone up because of various reasons globally. Over and above that, the benefit of lower iron ore prices internationally has not come to the Indian steel industry, so the prices are still at elevated levels in India. Because of these reasons, the cost sequentially went up by 19% and the blended NSR went up by only 5%. The net impact of this, the EBITDA per ton on a standalone basis was Rs. 22,900 per ton, sequentially lower by Rs. 3,374. So, the EBITDA on standalone is Rs. 8,673 crores, but on the other income just I would like to highlight one point is that, Bhushan Power and Steel, at the time when we made the investment through an SPV, we have mentioned that we hold 49% in the company and we also hold optionally fully convertible debentures balance instrument where we have a right to convert into equity. As and when it gets converted, then our holding will go up to 83.28%. So, we exercised that option as on 1st October 2021. So, from 1st October 2021 now we have control through SPV in BPSL. We hold 83.28%. So, from the 3rd quarter onwards there will be a consolidated of BPSL results and the debt while we announce Q3 results onwards. Then at the time when OFCDs were to be converted, there is a remeasurement of the fair values of OFCDs. So, when we did that, there is an additional income which has come as other income which is approximately Rs. 702 crores net of tax impact. The net profit has gone up due to this which is Rs. 559 crores. After considering that, the profit after tax on a standalone basis is Rs. 5,383 crores. Our iron ore captive has gone up from 42% to 50% in this quarter.

Coming back to the overseas operations, as we have been guiding, there will be a continuous improvement in the overall operations. The EBITDA from US operations, both Baytown and Mingo together went up to $61.4 million as against $43 million in the last quarter, sequential quarter. So, there is a good improvement as far as the contribution from US is concerned. At the same time, the Italian operations also recorded a positive EBITDA in the last quarter which was 6.1 million Euro as against a loss of 5 million Euro sequentially in Quarter 1. So, from overseas, I think it is a good turnaround. The EBIDTA contribution was Rs. 485 crores compared to sequential number of Rs. 282 crores in Q1. Indian subsidiaries also have done quite well. Coated, ACCIL, VTPL, other subsidiaries, all together contributed Rs. 1,194 crores sequentially which is higher when compared to Rs. 1,145 in Q1. So, the net addition after adjusting consolidated adjustments, this has given under consolidation Rs. 1,745 crore EBITDA incrementally, both Indian and overseas operations together. So, with that, the operating EBITDA on a consolidated basis is Rs. 10,417 crores. So, what is important here as we have been guiding, in Q1 the EBITDA was Rs. 10,274 crores. In Q2 notwithstanding the EBITDA margin per ton has come down, still we could show a higher EBITDA in the Q2 over Q1, which was Rs. 10,417 crores, which is 32%. EBITDA per ton was Rs. 26,172 per ton in Quarter 2.

Over and above contribution from overseas operations and also Indian subsidiaries, the joint venture companies under control, particularly BPSL, have done extremely well. So, in the last quarter there posted a net profit of Rs. 1,448 crores. So, taking into account the proportionate profit pertaining to JSW Steel and also proportionate from Monnet. Additionally, the share of joint ventures' contribution was Rs. 603 crores in the last quarter as against Rs. 323 crores in Quarter 1. So, with all this I think the highest ever profit after tax of Rs. 7,179 crores for the quarter. Here what is important is that in the entire financial year FY21 when JSW Steel posted an EBITDA of Rs. 20,141 crores, in the 1st half itself the EBITDA posted by company is 20,691 crores. So, it higher than the entire year of last year, the 1st half EBITDA. Similarly, the profit after tax number is Rs. 13,079 crores which is the net profit for the first 6 months as against Rs. 7,873 crores of last year for the full year. One more thing here is, generally when we announce the results, we don't add the production and sales numbers of the companies under joint control and also overseas corporations. So, if I look at the standalone production number it is 4.1. If we add the Mingo Junction production and also the Monent Ispat, the JSW Ispat Speciality Steel Products and also BPSL both together, 5.07 million tons of crude steel production in one quarter we have done. If I look at the first half, this number is 10.14 million tons. So, in Q2 there is a growth of 29% in crude steel production. Similarly, in the sales side, a similar number on a comparable basis is 4.83 million tons which is a 14% growth. These are all very sizeable numbers in terms of both production and sales, if I consolidate the companies under joint control also.

The overall debt of the company has gone up slightly in this quarter compared to Q1, which is Rs. 55,394 crores as against Rs. 54,900 crores. So, there is an approximate increase of Rs. 500 crores in the net debt. That's because there is an increase in inventory and overall working capital investment that have happened in the first 6 months. Total Rs. 8,200 crores are the total investments which we have made in the working capital. In terms of increase in inventories or increase in iron ore inventories or the stocks built, raw material built for commencement of production at our Dolvi unit. All together there is an incremental of Rs. 8,200 crores. We expect part of this Rs. 8,200 to get released in the second half. The debt to equity, debt to EBITDA, everything has improved substantially compared to 30th June or 31st March.

I'm also happy to say that the projects which we have taken up at Vijaynagar brownfield expansion of 5 million tons if progressing quite well. What is not commissioned at Vijaynagar is CGL 2 that we will be commissioning in Q3 2022 and one colour-coated line that is in Q3, we will commission that also. The coke oven plant we will do in stages, partly in this financial year, partly in the next financial year. So, these are what is going on in Vijaynagar other than brownfield expansions. At Vasind and Tarapur more or less everything has been completed, except one galvanising line which we'll be commissioning in this quarter. And CAL line and Tinplate line, that we will do in March and June 2022. With that these projects which we have taken up in the last 3 years, more or less, get completed.

Then on the outlook I would like to spend 1-2 minutes here. As regards to the overall demand, as I mentioned, we expect India steel demand will pick up in the 2nd half. As far as global steel demand is concerned, it's particularly when encouraging when we hear

WSA short range outlook. So, we expect this demand to remain strong going forward and it will accelerate as far as India is concerned. Then on the iron ore side, the kind of demand which is falling from China, so we expect iron ore prices to fall further from the current levels. Cooking coal prices are at a very elevated level. So, we anticipate that there will be some correction downwards in the cooking coal prices. But as long as the costs remain at this level, we expect steel prices also to pick up; they won't fall down because of very high and elevated cost pressures which are there right now. In view of this volatility which we have seen in the cooking coal price, which is very difficult for any company to manage, we are also observing what is happening globally. When such exceptional situations arise, the company contemplates looking at additional surcharges to pass it on to unsustainable increases. So as and when the prices come down, we pass on the benefit to the customer. If it goes up, it will be increased. We're also looking very seriously at the kind of volatility we're seeing in the cooking coal prices and our Indian company's dependency, Indian Steel company's dependency on import of cooking coal. We're also looking at whether we should introduce the energy surcharge compensating for the increase in the cooking coal prices. As far as the Dolvi operations are concerned, as I mentioned the expansion project, the cost will be lower. When compared to the existing operations which is gas based and DRI is used in the mix, whereas in the expansion project it is completely hot metal. Therefore, the costs are expected to be significantly lower in our expansion of the Dolvi unit, and almost 1.5 million tons production and 1.4 million tons sales from Dolvi expansion, we expect the benefit of lower costs to come to us.

With that, I open the floor for any clarifications or questions. Thank you.

Operator:

Thank you very much. We will now begin the Question & Answer session. Anyone who wishes to ask a question may press * and 1 on their touchtone telephone. If you wish to remove yourself from the question queue, you may press *1 and Participants are requested to use handsets which asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Amit Dixit from Edelweiss. Please go ahead.

Mr. Amit Dixit – Edelweiss:

Good evening sir and thanks for taking my question. I have a couple of questions. The first one is on the pro format debt in BPSL and what would be the EBITDA of BPSL in this quarter? What is the sales volume that you're contemplating for the year?

Management - JSW Steel Ltd:

The EBITDA for BPSL in the Quarter 2, the net profit was Rs.1,448 crores and the EBITDA was Rs. 2,022 crores.

Mr. Amit Dixit – Edelweiss:

And sir, the pro forma debt number including BPSL?

Mr. Seshagiri Rao:

In BPSL the debt outstanding at on 30th June was Rs. 9,000 crores. We have prepaid part of the debt in October. So, we have prepaid Rs. 1,800 crores in this quarter. So, the debt will come down…Rs. 9,000 minus Rs. 1,800 crores. So, the pro forma we'll have as on date is Rs. 7,200 crores. *{Please note figures are corrected in the response to the question from next participant}*

Mr. Amit Dixit – Edelweiss:

So, it will be like, if I add Rs. 55,000 plus Rs. 7,200 whatever it is, so that will be the pro forma debt of the company as of now?

Mr. Seshagiri Rao:

Right.

Mr. Amit Dixit – Edelweiss:

Okay. The second question sir is on Iron ore royalty. We have seen that in this quarter it has come down significantly compared to last quarter. Any specific reason for the same?

Mr. Seshagiri Rao:

Can you repeat the question please?

Mr. Amit Dixit – Edelweiss:

Sir, iron ore royalty cost that we report on the P&L in the standalone number, it has come down significantly. So, just wanted to know the reason for the same.

Mr. Seshagiri Rao:

In the last quarter our 1-year MDPA commitment we had to meet in June. That's why the dispatches were significantly higher in the last quarter. Whereas in this quarter, it is lower by 3 million tons. Whatever commitment we have corresponding to this year, to that extent we have done. If you have seen, in the previous year, in Q1 and Q2 the dispatches were lower. That was made up in Q3 and Q4 and also partly in Q1. That's why the premium paid in Q1 quarter was higher compared to Q2.

Q2 dispatches were lower by 3 million tons.

Mr. Amit Dixit – Edelweiss:

Okay got it so. So, this is more reflective of sustaining royalties level going ahead?

Mr. Seshagiri Rao:

Sorry?

Mr. Amit Dixit – Edelweiss:

So, this is more a reflection of the sustainable royalty level that we can consider? The premium level actually, if your dispatches and all remain the same?

Mr. Seshagiri Rao:

Yeah, approximately at that level. But the premium will depend upon market price. So, we have to look at what would be the market price. It can go up or down, but volumes would be in similar range.

Mr. Amit Dixit – Edelweiss:

Great sir! Thanks, and all the best.

Operator:

Thank you. The next question is from the line of Pinakin from JP Morgan. Please go ahead.

Mr. Pinakin – JP Morgan:

Thank you very much sir. Sir my first question is, I'm sorry but I didn't get the number. You mentioned BPSL EBITDA in the 2nd quarter was how much sir?

Mr. Seshagiri Rao:

EBITDA Rs. 2,022. EBITDA per ton was Rs. 23,000.

Mr. Pinakin – JP Morgan:

Sir just trying to understand, the EBITDA per ton at BPSL was Rs. 23,000 and for JSW standalone operations it was also a similar number. So, do you expect this convergence to stay, because the expectation of the BPSL assets are relatively higher cost assets and it will take some time for the margins to recover?

Operator:

Sorry to interrupt Mr. Pinakin, but your voice is breaking sir. Can you please check?

Mr. Pinakin – JP Morgan:

Sure. So, sir, the expectation was that the BPSL asset was higher cost but the margins are similar. So, should we expect this convergence of margins to sustain?

Mr. Seshagiri Rao:

Number 1, when you compare with JSW Steel on a blended basis, you have to look at we have multiple locations and the cost structure in each location is different. If you look at Dolvi, it is completely natural gas-based plant, so the cost structure is different. Iron ore cost for getting from Odisha is different. Similarly, Vijaynagar cost is different. So, EBITDA margins per ton on a location basis is different. As far as BPSL is concerned, there are lot of things which are happening, as I mentioned to you. Cost reduction where PCI is getting commissioned and we have recently commissioned Coke oven coal plant. So, there are lot of things which we have done to reduce the cost further. So, assuming the steel prices will remain at the same level, BPSL should do well going forward.

Mr. Pinakin – JP Morgan:

Understood sir, this is very helpful. The second question is, just trying to understand the steel prices, cooking coal cost movement. Correct me if I am wrong but, what we understand is that flat product prices have seen a big price hike in the month of October. Is it possible to assume that JSW will has more in the second half domestically which tends to have higher premium, and there is also the tailwind of auto price contract to reset. So, there will be a material NSR increase. Again, that sir there will be a coking coal and gas pipe increase. So how to look at this at this point of time, sir? Will it contract materially or will it be rolled out at what the second quarter level is there?

Mr. Jayant Acharya:

So, on the coking coal side numbers which we had guided last time for Quarter 2 was $30 to $35 more than the previous quarter, and that has played out. We were in the range of $158 for Quarter 2. We expect that the coking coal price impact for Quarter 3 will be higher by about $95 to $100 per ton. As you said rightly, the impact of the cost increase is getting reflected gradually in the market. The prices of steel products in India, which was lagging the international price cycle is now going up. October, we have seen some price increases and going forward in November and December, we see price adjustments going upwards to balance the cost increase. There will be some play out on the iron ore side which the cost reductions, which we are expecting on the iron ore side could neutralize some of the cost impact.

Mr. Pinakin – JP Morgan:

And sir, what about the gas cost increase at Dolvi, given I mean, JSW's source of gas at Dolvi operational?

Mr. Seshagiri Rao:

So natural gas whatever we are buying both at Dolvi and Salav is at the market price because there is nothing available under APM. So, we are buying whatever market price is there, that is why the costs have gone up as far as Dolvi is concerned. But here what is important as I mentioned is the expansion project is not gas-based. So, the cost varies, as I mentioned close to 15-20% lower than the existing operations in Dolvi.

Mr. Pinakin – JP Morgan:

Understood sir. Thank you very much.

Mr. Seshagiri Rao:

One more important information is the total debt of BPSL when we took over was Rs. 10,800 crores and at the same time, we also had done the SPV additional debt of Rs. 2,500 crores. So total debt which we raised is Rs. 13,300 crores including the debt is the SPV. Out of that total paid including payments made in October is Rs. 3,300 crores was prepaid. So, the balance debt that is there today is Rs. 10,000 crores. That is one correction to the numbers which I mentioned.

Operator:

Thank you. The next question is from Sumangal Nevitia from Kotak Securities. Please go ahead.

Mr. Sumangal Nevitia – Kotak Securities:

Good evening and thank you for the opportunity. Just continuing on the previous question. Just want to understand this coking coal cost a little bit better. So, one is, so $95 to $100 is on a per ton of coking coal are we talking or on the steel plant? And second, what would we our inventory in terms of the number of months? And for the fourth quarter are we already buying at the current $350-$400 per ton prices?

Mr. Jayant Acharya:

So, the cost which we indicated $95 to $100 is per ton of coking coal. As far as the inventory is concerned, we usually have inventories of about two months in the system.

Mr. Sumangal Nevitia – Kotak Securities:

Understood. Is there any hedging or any long-term or medium-term contracts available in the market, which might benefit from or is it entirely on market based?

Mr. Jayant Acharya:

So, the liquidity in the coking coal market, as you may be aware is limited from the futures perspective. So, I think, we have contractual pricing and index linked mechanisms for coking coal, which would be the way of calculating the cost for coking coal arrivals into India. However, our stocks in the system which is there will be about 45 to 60 days.

Mr. Sumangal Nevitia – Kotak Securities:

Understood.

Mr. Seshagiri Rao:

And with regards to the cost concerns as we had mentioned around $95 to $ 100 per ton of coking coal is increased we may have to absorb in the Quarter 3. But at the same time, iron ore prices with correction had happened from Rs. 6,560 peak we have seen in June to Rs. 4,760, current price, Rs. 1,800 per ton, where NMDC has reduced the prices. So, this reduction in the iron ore price that also will get reflected by way of lower iron ore prices, if not more reductions that may happen in iron ore, that will compensate to some extent to the increase in the coking coal cost. The third point is the Dolvi expansion which I already highlighted, that it is significantly lower 15 to 20% lower than the existing operations. That benefit will also come in the Q3. Over and above that, the turnaround of overseas operations which also I touched upon, where the capacity utilization at Mingo Junction and Baytown is in the range of around 50-55%, that is expected to go up. So some more upside in terms of overall improvement in EBITDA from overseas. Similarly, downstream where the contribution by JSW Coated was in the last quarter significantly higher than either Q1 or corresponding quarter of last year. So, we expect good volumes from Coated and a better margin there. So, all these together the additional benefits which would flow over and above the volume growth in India which can happen. In addition to all these factors, we are also contemplating as I mentioned about the energy surcharge, is it possible to pass it on if the current unsustainable coking coal prices continue?

Operator:

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

Mr. Indrajit Agarwal – CLSA:

Hi, thank you for the opportunity. My first question is on the royalty that is payable on iron ore transfer from BPSL to JSW. So, what is the rate of royalty that we are paying on that iron ore? And once BPSL comes in as a subsidiary, will it have a lower rate of royalty or because it is a subsidiary they will continue with a higher rate, even after the company comes in our…?

Mr. Seshagiri Rao:

As per my understanding, as far as royalty payment is concerned, any mines which are secured in the auction those companies can supply to subsidiaries for captive purposes up to 25% of the total production, without any implication of variational royalty. Anything that is to be supplied in excess of 25% from the captive mine, then the extra royalty is applicable. Similarly, other than captive mines, for instance, today we have four mines. Out of four mines, in Orissa, in Narayanposhi is the captive mine. Balance mines I think we will be able to supply without any problem because we can supply to anybody. There is no restriction in the auctioned mines other than the captive mines. Captive 25% we can supply.

Mr. Indrajit Agarwal – CLSA:

Sure. Thanks a lot. My second question is on the surcharge that you referred to on a higher coal cost. So, what would be the difference between like taking it as a surcharge and outside increasing the prices? I mean, we can also change prices as and when the cost goes down. So, is there any other implication or is it more like having a separate line item for that?

Mr. Seshagiri Rao:

No, the coking coal prices the way it mowed up every day $15-$20 per ton, this is very difficult for any company to manage this type of volatility. And at the same time the way it went up, it may come down also. Actually, we don't want to have any extra from this increase in coking coal or reduction in coking coal. So, whatever to the base the prices have gone up, we wanted to put separate line item. And if it comes down, the benefit will be passed on; this is what we are contemplating. We have not taken the call yet.

Mr. Indrajit Agarwal – CLSA:

And lastly again on BPSL, any kind of run rate that we should be looking at for the second half and next year in terms of production and sales volume? What is the ramp up we can expect?

Mr. Seshagiri Rao:

No, they are operating right now at a level of annual basis 2.7-2.8 million tons. They are already spending money to complete the expansion to 3.5 million tone; 3.5 to 5 million ton. And also, the reduction in the cost of production by setting up the coking plants, the PCI system, the live plant plus other improvements which they are doing. So, this will get completed partly by end of this financial year and also partly in the next year. So, these benefits also will come higher volumes, lower costs that can come in from the BPSL.

Mr. Indrajit Agarwal – CLSA:

Sure. That is all from my side. Thank you so much.

Operator:

Thank you. Ladies and gentlemen, in order to ensure that the management is able to address questions from all participants in this conference call, please limit questions to two per participant. For any further questions, you may come back for a follow-up. The next question is from the line of Abhishek Poddar from HDFC Mutual Fund. Please go ahead.

Mr. Abhishek Poddar – HDFC Mutual Fund:

Yeah, thanks for taking my question. Sir, in terms of a steel realization compared to 2-3 average, how is the spot where the Rebar and the HRC prices moved? Any colour on that.

Mr. Jayant Acharya:

You are asking a question is regarding movement of current prices vis-à-vis with the average?

Mr. Abhishek Poddar – HDFC Mutual Fund:

Yes sir. Just trying to see how much increase we have taken?

Mr. Jayant Acharya:

Okay. In the increases, in the month of October, we have been able to begin. The month of July to September in India from a demand perspective was weak on a seasonally weak quarter. And, we mentioned that, in the earlier deliberations. So, the price improvements have started taking place from October. So, we have increased between 1,250 to 1,500 in flats as on 1st of October, for the month of October. And we have increased long products in the range of Rs. 3,500 per ton beginning of October. There have been some intermittent increases during the course of the month for some retail markets. But I think that is for a smaller portion of the volumes. We are looking at how the overall demand and the price absorption plays out. And we are hoping to increase prices and correct it out from 1st November. How to do the surcharge mechanism as a factor of the price is something as we said, we are contemplating and we will look into, and accordingly implement.

Mr. Abhishek Poddar – HDFC Mutual Fund:

Understood. And compared to export realization, how does the HRC price in the domestic market fall for us?

Mr. Jayant Acharya:

So, as we had mentioned earlier also the international markets over the last, let's say six months have been very robust. International prices have been higher. As we know US and Europe, the prices are much higher than what is prevalent in Asia. India has been among the lower priced markets globally in the past few months. So, we are now seeing the Indian prices picking up and if you were to look at the value-added space, I think the international markets and Indian markets will probably be very similar in nature with respect to realizations going forward. As far as hot rolled is concerned, I think there are certain markets which are restricted right now because of certain quotas and certain safeguard measures. So hot roll prices vary from region to region, but by and large, I would say that the domestic price pick up post November may make the domestic prices slightly higher than the export prices.

Mr. Abhishek Poddar – HDFC Mutual Fund:

Understood, and just one last question regarding the tax losses at BPSL and how much is there and how we will be realizing it.

Mr. Seshagiri Rao:

So, it remains as separate independent entity until Supreme Court judgment comes in, final outcome comes in. So here only our holding has increased to 83% and it will become subsidiary today through SPV.

Mr. Abhishek Poddar – HDFC Mutual Fund:

Okay. Understood sir. Thanks.

Operator:

Thank you. The next question is from the line of Vishal Chandak from DAM Capital. Please go ahead.

Mr. Vishal Chandak – DAM Capital:

Yeah, thank you for the opportunity and congratulations on a very good set of numbers, sir. My first question is with respect to thermal coal prices and how it impacts our cost of production in the third quarter, given the strong rise in the international coal price?

Mr. Seshagiri Rao:

The thermal coal prices are going up because we have a 600 megawatts captive unit at Vijaynagar and also PPA with JSW energy for another 600 megawatts. So, on this 1,200 megawatt whatever cost increase it will happen in the variable cost or due to increase in thermal coal prices. So that could come in. The point here is, we are setting up or we have already commissioned part of it, 175 + 60, 235-megawatt power plant using the gases that would come out of blast furnace and coke coal at Dolvi. So, there are the cost increases won't be there due to power. So in in fact power becomes cheaper which I have been repeatedly highlighting that the cost of operation of the expansion project is much cheaper compared to the existing operation of 5 million ton at Dolvi because this power cost would be much lower in the expansion project.

Mr. Vishal Chandak – DAM Capital:

Sir, would it be safer to assume that the overall thermal cost impact would be close to about Rs. 2,000 to Rs. 2,500 at the company wide level in Q3? Because thermal coal is imported.

Mr. Seshagiri Rao:

Generally, in average 600 units per ton of steel is the consumption. So, then I leave it to you how much you will take based on thermal coal price. Every day it goes on changing. It is very difficult to say this is the price. So whatever price you take for per unit, and add to that 70-80 paise towards this cost. So that is the cost of power.

Mr. Vishal Chandak – DAM Capital:

Sir, my second question was again with respect to BPSL. We are increasing the capacity of BPSL from 2.6 to 3.5 million tons through balance of plant. So, by when can we expect BPSL to reach 5 million tons capacity?

Mr. Seshagiri Rao:

As on date it is operating at 100% of existing capacity. So, we are spending Rs. 1,500 crores for cost reduction plus expansion to 3.5 million ton. This is expected to be completed in the first half of next financial year. So, the expansion from 3.5 to 5 million ton, we are spending another Rs. 2,000 crores. So that is expected to be completed by end of FY23 or in the early 24 financial year.

Mr. Vishal Chandak – DAM Capital:

So, if everything falls in place by end of FY23, BPSL itself will be over the 5 million tons.

Mr. Seshagiri Rao:

Correct.

Mr. Vishal Chandak – DAM Capital:

And on top of it we have Vijaynagar coming in by second half of FY23 with another 5 million tons?

Mr. Seshagiri Rao:

No Vijaynagar 5 million ton will come by FY24 end.

Mr. Vishal Chandak – DAM Capital:

So, in 3 years' time frame about 15 million tons, about 12.5 million tons of incremental capacity. Are looking at exports market again or we believe that Indian market would be wide enough to absorb this kind of a volume?

Mr. Seshagiri Rao:

Vishal this I mentioned in my opening remarks that the demand will be 110 million ton in this year at it is 94 million ton last year. So, 16 million ton incremental demand, which we are expecting. And the exports last year are 17 million tons. In the first six months, we have already done 11 million ton in the country. So, exports are quite strong from India. So, taking these two factors into account, in my view there is enough demand that would be available in India to absorb that capacity. If capacities would come there could be shortages.

Operator:

Mr. Vishal Chandak, may we request you to please reach for in the queue. We have participants waiting for their turn.

Thank you. Participants are requested to please limit your questions to two per participants. The next question is from the line of Bhavin Chedda from ENAM Holdings. Please go ahead.

Mr. Bhavin Chedda – ENAM Holdings:

Congratulations on turning around overseas subsidiaries and good performance at Bhushan Power also. So, first question, Bhushan Power there was no exceptional in this

23,000 EBITDA per ton and if the things remain constant assuming steel price hike and coking coal increases the EBITDA will be in line with whatever JSW Steel is doing right now?

Mr. Seshagiri Rao:

Bhavin, the way you have to look at the EBITDA per ton numbers is JSW Steel you are comparing with standalone numbers with BPSL integrated operation, including downstream. So, if you really want to compare apples to apples then you have to add JSW Coated EBITDA also to JSW Steel's standalone and then compare. Then definitely even in blended basis, it is higher. BPSL out of the 2.8 million ton a significant portion of that is downstream. That is why the margins are quite healthy.

Mr. Bhavin Chedda – ENAM Holdings:

Sure. And sir what was the figure of the revenue and capital acceptances in the quarter?

Mr. Seshagiri Rao:

Raw material acceptances slightly have gone up because coking coal prices have gone up globally. It is $1,014 million is the raw material acceptances. But the capital acceptances we continue to pay it is outstanding at $369 million. So, it is $1,383 both raw material and the capital acceptances together, which has come down from $1,520 million on the 30th June. So, there is a reduction in the overall acceptances, majorly in the capital side.

Operator:

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

Mr. Ritesh Shah – Investec:

Hi sir, thanks for the opportunity. Sir two questions. One is, how should one understand or make of the residual 17% stake in BPSL. Any timelines or targets that we are looking at over here.

Mr. Seshagiri Rao:

After conversion, now it is 83.28 and balance held by the group company, that is the amount they have contributed, that is why their holding is around 17% as on date. In addition to that, there is a Rs. 2,500 crores of debt outstanding along with accrued interest in that company, in the SPV what I mean to say. That Rs. 2,500 crores there are warrants that are available both to the shareholders. At the relevant time who will contribute, how much they will contribute to the Rs. 2,500 crore payment, based on that the holding can undergo a change. But as on date, Rs. 2,500 crores keeping is a debt, then it is 83 and 17.

Mr. Ritesh Shah – Investec:

Right. Sir, I was trying understand, basically you indicated there is Supreme Court verdict, which is also there, and there is a taxing also which is there. Just trying to understand, when will we see the entity entirely merged so that there could be a tax benefit at the console level as well?

Mr. Seshagiri Rao:

If we see the ratios today, they are comparable what the JSW Steel ratios are there. Because of the Supreme Court litigation is pending, it will be very difficult to guess when it will be decided, when we can take a call on this issue, when we can decide on this issue. So, therefore we have to wait eventually for the Supreme Court litigation outcome. Pending that now, consolidation will happen at the subsidiary.

Operator:

Thank you. The next question is from line of Raashi Chopra from Citi Group. Please go ahead.

Ms. Raashi Chopra – Citi Group:

Thank you. Sir, just trying to understand. You are saying that the coking coal prices will go up by about a hundred dollars in this quarter. That is obviously not capturing peak prices and while we are anticipating steel price increases to come through in the next couple of months, would they be enough to offset that inflation? And second is what is the advantage that you are likely to see in the iron ore prices in this quarter?

Mr. Seshagiri Rao:

The iron ore prices as I mentioned to you, there is a Rs. 1,800 reduction in India, which is not reflected in major extent to benefit in the accounts in Q2. So that benefit will come any further reductions. If I look at the drop in international prices versus local prices iron ore prices there is a big gap. We expect few more corrections will happen in the iron ore prices that benefit will come. So that we utilize to some extent, the increase in the coking coal price.

Ms. Raashi Chopra – Citi Group:

Okay. And the other thing is that the energy surcharge that you were referring to now it is…obviously price increases in India have been, steel price increases have been slower given that they have been more or less constant in the last few months, and now also it is a gradual up move. So, will it be easy, even if you bring in any surcharge and you will be able to pass on the benefits eventually on reversal. But would you find it easy to kind of pass it on if implemented?

Mr. Seshagiri Rao:

This is a new concept to India. As far as overseas is concerned, not only in steel sector in other sectors it is prevalent, the concept is known. So that's why we are not saying already taking a call to do this. We are contemplating because the markets are so uncertain, so volatile. Every day, if it goes up by $50 and come down by $50. It is very difficult to manage that type of volatility. So, this concept, you see in internationally accepted principle. We are also looking it. We will discuss with our customers and then take a call.

Ms. Raashi Chopra – Citi Group:

Thank you. Just one last question on Bhushan Power. Next year's CAPEX will be about Rs. 2,000 crores, right and are we building for this year?

Mr. Seshagiri Rao:

Total CAPEX is Rs. 3,500 crores including Rs. 1,500 crores for capacity expansion to 3.5 million ton and cost reduction. Both together it is Rs. 3,500 crores. This amount will be spent over a period of 2.5 years.

Ms. Raashi Chopra – Citi Group:

Okay, thank you.

Operator:

Thank you. The next question is from the line of Sidhay Saigal from UTI Asset Management. Please go ahead.

Mr. Sidhay Saigal – UTI Asset Management:

Sir, first of all congratulations for a good set of numbers. Bhushan Power, this debt you told total debt is around Rs. 13,300 crores which is Rs. 10,000 JSW and Rs. 3,300 in the SPV. So first of all, this is Rs. 3,300 is it including the income tax they are saying in Rs. 55,000 crores and second when you said that out of this Rs. 3,300 crores have been repaid. So is it in the SPV only, means entire Rs. 10,000 is now only in JSW?

Mr. Seshagiri Rao:

No, no, I think I have to correct you. The numbers which I gave to you, is the time when we took over Bhushan Power and Steel we took over, the debt was Rs. 10,800 crores. Then there was another Rs. 2,500 crores in the SPV. So, the total debt at the time of takeover was Rs. 13,300 crores. Out of that, we have prepaid Rs. 3,300 crores. That means BPSL plus SPV together the debt outstanding is Rs. 10,000 crores. So, this Rs. 10,000 crores are not included in JSW Steel Rs. 55,400 crores numbers which we have given it to you. So as and when we consolidate in this quarter, then it gets consolidate along with the EBITDA.

Mr. Sidhay Saigal – UTI Asset Management:

Okay. So currently it is out of this Rs. 55,000 crores?

Mr. Seshagiri Rao:

Correct.

Mr. Sidhay Saigal – UTI Asset Management:

Okay, thanks.

Mr. Sidhay Saigal – UTI Asset Management:

Operator:

Thank you. Ladies and gentlemen, this will be the last question for today which is from the line of Rahul Jain from Systematix. Please go ahead.

Mr. Rahul Jain – Systematix:

Hi sir. So, I just wanted to check on your volume. So, are we maintaining guidance for this year of 18.5 and 17.5 of production?

Mr. Seshagiri Rao:

If you see Rahul, the first six months we have posted a production of 8.2 million ton from existing operations. We have given the guidance of 17 million ton from existing operations. So, if we can make adjustment of shutdowns, which had happened in the Q2 and oxygen shortage in the Q1, which will not be there in the Q3 and Q4, so 17 million ton we will be able to achieve from existing operations. Similarly, the way we have now a smooth commissioning of our expansion project at 1.5 million ton from expansion, we are confident that we will be able to get from there. So, 18.5 million ton is within achievable reach.

Mr. Rahul Jain – Systematix:

Right. And sir what about the downstream? Are we fully equipped now on the expanded operations or in the other you know, JSW Coated?

Mr. Jayant Acharya:

Yeah, we are fully equipped except for…all the lines have started except for one line in for galvanized and GL in Vasind, which should start up in the next two months. Other than that, all the units are operating now fully in a stabilized manner.

Mr. Rahul Jain – Systematix:

Right. Thank you so much.

Operator:

Thank you. Ladies and gentlemen, as this was the last question for today I would now like to hand the conference over to the management for closing comments.

Ashwin Bajaj:

Thank you, ladies and gentlemen, for joining us today. If you have further questions, please feel free to contact our investor relations. Thank you.

Operator:

Thank you. On behalf of Prabhudas Lilladher Private Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

End of Transcript