"Jindal Steel & Power
Q1 FY2024 Earnings Conference Call"

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ANALYST: **MR. AMIT DIXIT – ICICI SECURITIES LIMITED**

MANAGEMENT: **MR. BIMLENDRA JHA – MANAGING DIRECTOR – JINDAL STEEL & POWER**
MR. RAMKUMAR RAMASWAMY – CHIEF FINANCIAL OFFICER – JINDAL STEEL & POWER
MR. VISHAL CHANDAK – HEAD INVESTOR RELATIONS – JINDAL STEEL & POWER

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY2024 Earnings Conference Call of Jindal Steel & Power. 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 for an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amit Dixit. Thank you and over to you Sir!

Amit Dixit: Thank you. Good evening everyone and thanks for joining the call today. At the outset I would like to thank the management for giving us an opportunity to host the call. From the management we have today Mr. Bimlendra Jha, Managing Director, Mr. Ramkumar Ramaswamy, CFO, and Mr. Vishal Chandak, Head IR. Without much ado I would invite Vishal to take this ahead. Over to you Vishal!

Vishal Chandak: Thank you Amit. Good evening everyone and thank you very much for joining us on the Q1 FY2024 earnings call briefing for Jindal Steel & Power. So we will not take much of a time and I will request our CFO, Mr. Ramaswamy to start the presentation with a quick overview and then we will follow with the Q&A. Over to you Sir!

Ramkumar R: Thank you Vishal. Prior to getting getting into the operational and financial performance, I would like to start with a few recent highlights that we have just announced. We have announced the commissioning of the pellet plant in Angul. We have announced a receipt of mining leases for Gare Palma IV/6 and Utkal C and we have also received the Great Places to Work certification, so all of these would be part of our current quarter's announcements and we are very, very happy to share these with all of the investors. We can share further details about this during the Q&A.

Let me now give you an overview of the operational and financial performance. Our sales volume during the quarter was 1.84 million tonnes, which is 9% lower Q-o-Q primarily driven by weaker demand owing to seasonality factors. The share of exports during the quarter was 10% broadly in line with the last quarter. The production for the quarter was 2.04 million tonnes which is a 1% growth Q-o-Q. Both the plants Angul and Raigarh produce in line with the last quarter.

Let me now talk about the realizations. Our domestic sales realizations remained soft during the quarter. However, with an improved export realization and mix our overall realizations increased by 2% quarter-on-quarter. We are continuing to experience softness in realizations in the range of around 5% and we have to see how it plays out during the quarter. Our SMS cost increased by 2% primarily driven by higher cooking coal prices; however, this was offset by higher captive iron ore volumes from our mines and the overall costs were lower by around 2%. As per practice we do not provide any forward looking guidance on numbers for the subsequent quarters. Our adjusted consolidated EBITDA for the quarter is Rs.2704 Crores. This is primarily driven by lower costs offset by lower volumes. Our overseas EBITDA for the quarter was Rs.39 Crores. On a consolidated basis our PAT has improved Q-o-Q from Rs.466 Crores to Rs.1692 Crores primarily driven by EBITDA improvement in our India operations. You would of course note that there were one-off items in the last quarter.

I would like to give an overview on the cash flows and debt. We had opening cash balance of around Rs.4700 Crores. During the quarter we had operational cash flows of approximately around Rs.2250 Crores. This is after a working capital built up of around Rs.400 Crores during the quarter. During the quarter we had a total capex of around Rs.1900 Crores primarily in Angul. From a financing perspective we repaid Rs.2300 Crores of our loans and we also took fresh loans as part of a refinancing programme to the extent of around Rs.1074 Crores. Our closing cash balances at a very healthy level of around Rs.3800 Crores. Our consolidated gross debt is Rs.11484 Crores and our consolidated net debt is Rs.6812 Crores with a net debt to EBITDA of 0.75. You would also have noted that the pledge NDU on promoter holding which was part of the debt covenants they have now been released as part of our overall refinancing programme. With this I would like to hand over to Vishal for Q&A.

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. The first question comes from Indrajit from CLSA. Please go ahead.

Indrajit: Thank you for the opportunity and congrats on a good set of numbers. My question is on the capacity expansion schedule that we have given in figure 14 so there is again a couple of quarters actually more than that delays in most of the capacities two to three quarters delay further and moreover we are seeing a change in configuration I do not see the electric arc furnace anymore and a new BOF has come up BOF3, so the question is twofold one what is driving the delay and what is the confidence that the new timelines will be adhered to and second if there is any change in configuration versus what we had earlier expected?

Bimlendra Jha: Sorry, just one moment. So instead of EAF you are seeing BOF3 over there that is what you are looking at right?

Indrajit: That is one question and the delays these are the two questions?

Bimlendra Jha: There was there were some delays in the environmental clearance and other things so there is a bit of a delay that took place as a result of that. We are trying to pull back as far as possible but given the rains and all that we are not able to make that much of progress as we would have anticipated so these are anyway very aggressive timelines and I think we have given a slightly more relaxed timelines over there, although we are still working to a tighter timeline to meet early.

Indrajit: Sure this is helpful and on the BOF3?

Bimlendra Jha: Yes, so this BOF we are anyway planning along with the blast furnace 2 that expansion and we are still looking at this DRI2 that is there so it is one of the BOFs will come faster and the other one is on a slower timeframe so if there is any change on that one we will let you know.

Indrajit: EAF also we are pursuing?

Bimlendra Jha: It is an option. It is an option between the BOF3 and EAF because of DRI2 that option exists.

Indrajit: Alright but that does not change any of our capex guidance right?

Bimlendra Jha: No. The capex guidance does not change. It is just a question of some thought process that is still there on BOF versus AOF.

Indrajit: Sure thank you. That is all from my side.

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

Amit Murarka: Good evening. Just wanted to understand the realization performance better so clearly the realization has been a bit out of line with how market prices are behaved so could you just quantify how much of benefit was there from these higher priced exports as you mentioned in your opening comments?

Ramkumar R: As I said overall the India realizations continue to remain soft. So I think that is something that we are also seeing but given the overall mix and the improved exports, so in exports we are roughly seeing around 8% to 10% delta over our domestic prices. Had that been taken in totality we saw a slightly improved realization but the domestic India realization is weak.

Bimlendra Jha: Let me give you the numbers to put it in context. If we consider Q1 of last year to Q4 of last year just the India realizations had declined by 11% from 68390 to 60600 from that level it has been relatively stable but marginally down by about 1% and it is now at 59961 so that was the kind of number which was there.

Amit Murarka: Even in this current quarter we have seen further decline in rebar prices so like is it fair to assume that the drop in realization would be sharper than the realization the drop in your realization would be sharper than the fall in rebar because that higher priced export contract benefit will not be available in the second quarter?

Ramkumar R: As I had indicated we are seeing softness in our realizations approximately around 5% on a quarter-on-quarter basis, but again this is too early to kind of comment on how it will play out. We are constantly looking at how the mix can be improved and let us see how it plays out during the quarter.

Amit Murarka: Also the coal blocks could you just help us understand how will the ramp up be on that 7.4 MT volume?

Bimlendra Jha: So there are still many a slip between the cup and the lips because we have got the mining which is registered, but that is not the only legal hurdle there are several other permissions and every day is a struggle to get those permissions, but we do hope that within this quarter we will be able to start our mines.

Amit Murarka: Any planned ramp up schedule?

Bimlendra Jha: You know as soon as we hit the coal we will be ramping it up based on our ability to get into the mine first.

Amit Murarka: Sure. Thanks. I will come back in the queue.

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

Bhavin Chheda: Congratulations on great set of numbers. Sir the raw material costs have declined on quarter-on-quarter basis so can you give some highlight of how much iron ore and coking coal and thermal coal was down?

Ramkumar R: I do not think we will be able to share the exact details at this point of time, but as I said our SMS costs increased by approximately 2% primarily driven by higher cooking coal prices; however, during this quarter we had a higher active iron ore from our Tensa mine and therefore the overall costs were lower by around 2%. Last quarter we had kind of stopped the mining because we accelerated the mining from our capital mines in the last financial year and therefore last quarter it was a much lower volume so this time we had a much higher volume, but in overall level our costs were lower by around 2%.

Bhavin Chheda: Thermal coal would have also declined, right?

Ramkumar R: That is right, but thermal coal prices of course the option prices are all reflecting a decline and we will start seeing the benefits in the Q2.

Bhavin Chheda: As you give guidance of NSR which will be down to 4, 5% for next quarter how will the cost is trending in this quarter?

Ramkumar R: Let me clarify that was not guidance. I have given you approximate view of how things stand as of now. We do not give a forward-looking guidance on either NSR or costs.

Bhavin Chheda: If you can guide on how the costs are trending?

Ramkumar R: As I said we do not provide forward-looking guidance.

Bhavin Chheda: Thank you.

Moderator: Thank you. The next question is from the line of Kirtan Mehta from BOB Capital Markets. Please go ahead.

Kirtan Mehta: Thank you Sir for giving this opportunity. The question is basically we were planning to undertake the capex view and inform the market about the sort of the revision in the capex plan, has that been completed and is this change is a part of the same or we are still expecting the capex plan to also evolve at a later date and also apart from the changes that you mentioned we are also not seeing the things like TSCR component present so is that also exist as an option further?

Bimlendra Jha: I think that is a typo. So let us say that rest of our configuration remains the same.

Kirtan Mehta: Fine. On the review of the capex has it been over or it is still ongoing?

Bimlendra Jha: There is no revision in capex as such to announce, but there is obviously constant evaluation of the opportunities around us that keeps happening. So till the time that we have got any bankable feasibility report or anything else we cannot make any announcements.

Kirtan Mehta: Last time what I understand was we had made an announcement about the review being undertaken and plan was basically either to come to the market as soon as it completes so the exercise is still on that is what you are confirming at this point?

Ramkumar R: We have said that we will share the capital allocation framework but given several ideas that are being considered we have still not concluded that and we will share that the moment it is available for sharing.

Kirtan Mehta: Fine Sir. Anything that you can share on the ideas under consideration at this stage?

Bimlendra Jha: I will tell you the reason for rethink and everything else is that the world is moving towards more and more green steel and we are looking at options.

Kirtan Mehta: Fine Sir. Thank you.

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

Sumangal Nevatia: Good evening Sir and thank you for the opportunity. My first question is just continuing on the previous question on this capital allocation framework our annual report also mentions about our plans for cold rolling mill, etc., along with hot strip mill so if you could just detail what sort of downstream opportunities are we evaluating and what could be the mix of finished steel and potential capacity over the next 2-3 years?

Bimlendra Jha: So we are evaluating these downstream options which include cold rolling, galvanizing, colour coating, etc., so once you put up a 5.5 million tonnes of hot strip mill which is currently our focus to get it off ground then the next obvious thing the downstream facilities, so that is what we are working on.

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

Vikash Singh: Good evening Sir. Thank you for the opportunity. Sir I just wanted to understand while we have pushed back our capex by a quarter or two are total spending on a yearly basis remained constant so have we added something additional or this is just some typo?

Bimlendra Jha: No, we should be marginally less if at all, but our numbers are more or less similar.

Vikash Singh: Despite the capex being some of the larger capex being pushed back by half a year?

Bimlendra Jha: See the only thing is that it is the commissioning time. So we have taken a bit of a cushion over there to give an indication as I said that there have been delays that were there in obtaining environmental clearance and all the statutory clearances so to that extent there has been a quarter push in most cases.

Moderator: Thank you. The next question is from the line of Pallav Agarwal from Antique Stock Broking. Please go ahead.

Pallav Agarwal: Good evening Sir. Sir with the commissioning of the pellet plant will we see more external sales or you will stop procuring from outside and then what could be the potential cost benefit over it?

Bimlendra Jha: We have not been procuring any pellets from outside anyway, but yes we want to ramp up this capacity and thereafter as a new blast furnace comes in then we will start consuming all the pellets ourselves.

Pallav Agarwal: These are available for external sales?

Bimlendra Jha: Yes, there will be some amount that may be available depending upon the economics because as you are aware that even though we had the capacity between iron ore prices and pellet prices if there is a positive margin only then you sell.

Pallav Agarwal: Sure Sir and also on the slurry pipeline would it not have made sense to commission that along with the pellet plant?

Bimlendra Jha: Nobody wants it more desperately than us, but you have to deal with the ground reality of the country.

Pallav Agarwal: Sure. Thank you.

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

Rajesh Majumdar: Yes, thanks for taking my question. Sir sorry to harp on the raw material thing again, but the numbers are not adding up to what you are saying. If you add the raw material position on a Q-o-Q basis it is down nearly 10% not 2% and this is excluding the change in stock just the raw material plus the purchase or stock in trade on a Q-o-Q basis but there is a very, very sharp reduction which does not match in exactly with the numbers that you are saying, now if this is sustainable number or how should we look at this number, if you look at the Q-o-Q position it is down more than 10% actually?

Ramkumar R: Maybe if very specific details or numbers I would request Vishal to clarify to you separately but as I indicated to you, I think these are the costs that we are seeing our SMS costs have increased by 2% and because of higher captive iron ore prices the overall costs are lower by 2%, but anymore specification details Vishal will be able to share that with you subsequently.

Rajesh Majumdar: Right and for this quarter the cost is going to go up a little bit is it?

Ramkumar R: No, as I said we do not provide forward-looking guidances but given that the same question is being asked several times I can only say that cooking coal prices have come down so we expect to see some of the benefit during the current quarter. Coking coal and iron ore prices have also come down.

Moderator: Thank you. The next question is from the line of Pavas Pethia from Aditya Birla MF. Please go ahead.

Pavas Pethia: Sir comparing with your last quarter presentation have we changed the plans for finished steel capacity, there are no things like Caster in this presentation?

Bimlendra Jha: I already mentioned about the typo there is no change in the plan.

Pavas Pethia: But timeline wise it will be still in FY2025 itself?

Ramkumar R: We will get back to you. As we said there are several of these currently on the drawing board and we are looking at what would be the best configuration for us. If there are any changes to this we will keep you updated.

Pavas Pethia: Sure. Thanks.

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

Sumangal Nevatia: Sir the EBITDA of different international business, mining businesses, which is in South Africa, Australia, Mozambique the press release does not mention it, in the past we have always shared those details in the press release?

Ramkumar R: Given the low materiality to the overall numbers we thought it did not make sense, but if it is helpful Vishal will be able to share that with you separately Sumangal.

Sumangal Nevatia: Got that Sir and just one last thing on this cost is it possible to share what would be our coking coal and thermal coal cost and how is it as on say today not asking forward guidance, but how is 1Q versus what is the current trend in the market?

Bimlendra Jha: So you already must be watching Platts it is around sorry 247 to 250 level so that is the current level right now.

Sumangal Nevatia: But Sir what would be our cost in Q1 in our numbers?

Ramkumar R: We do not disclose the specific numbers Sumangal, so you will have to bear with us on this. We do not disclose specific numbers and we do not give forward guidance. So my request to the analysts please not to ask for that because we just want to make sure that this is consistently being followed.

Sumangal Nevatia: Got that. I understand, but just one last thing on thermal coal is it possible to share what is our mix in terms of how much are we using linkage versus reauction or even imports?

Bimlendra Jha: We hardly use any imports, but we are typically more domestic.

Sumangal Nevatia: Linkage and reauction breakup?

Ramkumar R: I do not think those details are available at this point of time right now and I do not think we have also shared this in the past, so we would be unable to share that one.

Sumangal Nevatia: Got it. Thank you and all the best Sir.

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

Satyadeep Jain: Thank you. Just a clarification question on TSCR if there is a typo the finished steel capacity after the expansion still stay the same?

Bimlendra Jha: Yes, the finish steel capacity we are still expecting around the similar level.

Satyadeep Jain: The Russell Vale mine initially there was expectation on certain costs in over time there were some negative surprise on the ash content and the quality which is some other reason I am getting there is write down also when you are looking at the new mining blocks they are going to commission soon, the quality so far based on what you are saying are you confident that the quality G10, G12 and the ash content would remain meet your expectations?

Bimlendra Jha: You are talking about our Australian resources or Indian resources?

Satyadeep Jain: Linking the Australia one had negative surprise; in terms of quality the Indian coal blocks that you are seeing obviously management has a time to evaluate these blocks in the last one year is they are confident that there would be no negative surprise on these blocks.

Ramkumar R: Firstly it is not correct to compare the Australia experience with the India experience. Australia had several other issues including our ability to invest and get the right returns so they are not comparable. Of course we are confident about the quality of these mines that is the reason why we have bid and we have got these mines on auction. So we are compatible, we are quite confident that these mines will serve the purpose for which they have been acquired. It is not correct to compare the Australia experience with the local experience.

Bimlendra Jha: I will also tell that is why I was not able to understand what is your question and what are you getting it. As far as Australia is concerned Australia has had different kind of legal environments and issues around the restrictions on mining, etc. It is a completely different ball game compared to India. India is our home territory, familiar territory, the mine is next door, it is a fully explored mine there are no surprises. We know exactly where the coal is lying, we know exactly where we will enter, our shovels are ready, and just we need the permission where there is nothing that we have to worry about in India.

Satyadeep Jain: Yes, thank you. How much is mining capex?

Ramkumar R: We will share that with you separately.

Satyadeep Jain: Thank you so much.

Moderator: Thank you. As there are no further questions from the participants I now hand the conference over to Mr. Amit Dixit for closing comments.

Amit Dixit: I thank everyone for attending the call and again thank you to the management for giving us the opportunity to host the call. I will pass it over to Vishal if you would like to have any closing comments.

Vishal Chandak: I would request our MD Sir to have closing remarks to our quarter.

Bimlendra Jha: First of all I am once again happy to say that we have not only been able to commission the pellet plant and also have obtained almost the heavy lifting has been done in case of coal mines, rest of the plans are on track. We have taken a bit of a cushion there, that is why we have given a bit of a guidance where the commissioning date given our past experience, we have taken a bit of a liberty over there to say that there is maybe a quarter delay in most cases, but by and large we are on track as we had planned. There is of course some amount of rethinking and our ability to do something new within the constraints of what we had put as our plans so that our carbon footprint goes down, we are able to give a better product mix to the external markets apart from internal market you are aware that CBAM etc., are coming and therefore we are being more cautious about some of the things that we are doing, some of the revaluation is taking place only from that point of view. So on TSCR we will come back to you because we have sent you all these numbers and there may be some errors somewhere which we will rectify and send it to you. So that is all that we have from our side. We have also been certified as Great Place to Work and we are actually quite confident on our team to deliver on all the results as the opportunities are there all around us.

Moderator: Thank you. On behalf of Jindal Steel & Power Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.