



“Jindal Steel and Power Limited
Q3 FY2020 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the Jindal Steel and Power Limited Q3 FY2020 Earnings Conference Call hosted by Kotak Securities Limited. 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. If you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sumangal Nevatia from Kotak Securities Limited. Thank you and over to you Sir!

Sumangal Nevatia: Thanks, Nirav. Good afternoon ladies and gentlemen. Thanks for dialing in for JSPL’s 3Q FY2020 Earnings Conference Call. We have with us the management of JSPL to discuss the results. I will hand over the call now to Nishant Baranwal, Head - Investor Relations at JSPL to take the call forward. Over to you Nishant!

Nishant Baranwal: Thank you Sumangal. Good day everyone. We welcome you all to JSPL’s 3Q financial results conference call. Today we have with us our MD, Mr. VR Sharma, we also have with us Mr. Bharat Rohra, MD – JPL, and our CFO, Mr. Deepak Sogani. Without wasting much time, I would hand it over to Mr. VR Sharma to begin with his opening remarks.

VR Sharma: Good afternoon, I am VR Sharma, Managing Director of JSPL. Last quarter has been very good for JSPL and we have done ever highest production as well as highest sales.

Our consolidated turnover is Rs.9300 Crores and standalone JSPL division has done Rs.6640 Crores, whereas the consolidated sales were at a level of 2.24 million tons again, which is ever highest in the quarter. We took the target in the annual business plan for the year 2019 to 2020. This financial year our plan was 6.5 million tons of steel production from India, and 1.8 million tons steel production from Oman, and I am confident that we will surpass this figure and reach to more than 8.3 million tons of the productionl .

EBITDA level is good in comparison to Q2, there is a growth of about 1% despite of selling pressure as well as overall price pressure in the international scenario. From Q3 of 2019 versus Q3 of 2020, the EBITDA level is down by 1% and it is at a level of Rs.8415 per ton now, but fortunately in the end of December 2019 and the beginning of 2020 the prices have moved up and the net impact in January as against of November 30, 2019 is coming around Rs.2500 per ton. We are aiming to cross Rs.10000 per ton of EBITDA level and a turnover of about 10000 Crores in Q4. So, the company is doing extremely well.

We are also pleased to inform that we have restarted our coal gasification and DRI plant which will give us an additional quantity in the month of February and March. , Since In January we have taken some capital shutdown of our blast furnace, we are aiming a similar

kind of production level in the month of January, but In February we should be at a level of 100000 tons . The same is expected for the month of March . So, we will be moving from 6.5 million tons to 6.7 million tons easily and similarly from Oman we expect to produce more than 500000 tons, which was our original plan.

If you see the EBITDA margin, we are at a level of about 20% now and the highest was 22% in Q1 in this fiscal year. after the prices came down, we are now at a level of 20%, but we feel that in Q4 we will be again at about 21% plus as far as the turnover to EBITDA ratio is concerned the company is doing very well so we are hopeful that we will be in a position to steer it in a better tomorrow. So, thank you from my side.

Nishant Baranwal: Now I request Mr. Bharat Rohra, MD, JPL for his commentary on the power side, please.

Bharat Rohra: Good morning participants. The third quarter of the current financial year for Jindal Power has seen a marginally better performance compared to the previous quarter and the third quarter of last year. Comparison with the previous quarter shows the EBITDA margins have marginally increased to 33% compared to 32% in the last quarter and up from 27% in the last year third quarter.

The effect of the monsoons continues to hamper the coal availability, otherwise the performance would have been much better. JPL made alternate arrangements for coal from other sources to meet its obligations of power under the PPAs. Based on these arrangements we have managed to maintain all the supplies to Tamil Nadu, Kerala and to Chhattisgarh with a generation of 1900 million units.

The comparison of EBITDA on a year-on-year basis has marginally decreased by from 273 Crores to 257 Crores and on a Q-on-Q basis by 13% from 230 Crores (ignoring one time EBITDA of 69 crores) to 257 Crores primarily due to lower coal cost and better NSR.

The stress in the power sector continues and has been aggravated in the second and third quarter by the coal shortage. However, the government's measures to give relief to the power sector have started showing some relief to the sector.

Payments from DISCOMs have been streamlined and now all DISCOMs are paying JPL promptly and LCs have been made available as a security mechanism. As regards the future, the PPA pilot scheme was coordinated by NHPC, but was cancelled and the government has directed PTC to carry out the sale. The bids for the sale are to be submitted by January 24, 2020 and the reverse bidding expected on the January 31, 2020. JPL is planning to bid for a sizable quantity in this bid process.

Regarding coal availability, the government has announced auction of coal mines for commercial use in any industry. The first round of bidding is expected within the current quarter. JPL plans to participate in these auctions for a mine that maybe strategically located for JPL.

The government has also announced linkage auctions for operating power plants which does not have PPAs and FSAs. This will ensure a much better availability of coal for JPL and hence a much better PLF for the company.

The current long term debt in JPL stands at 6600 Crores down from 6800 Crores with about 200 Crores repayments having been done in the current quarter. JPL is also in the process of repayment of debentures of 330 Crores in six installments of which three have already been repaid. All this is proposed to be done without any additional borrowings. It is pertinent to mention that on the directions of the Appellate Tribunal, TANGEDCO has paid all the nine installments towards change in law dues payable to JPL that takes care of 50% of the claim processed by CERC. We are taking up with the Appellate, release of the balance 50% of our change in law claims.

For the current quarter JPL has managed to buy over 7 lakh metric tons of coal from auctions at a low price, which will ensure a much better performance for JPL in the fourth quarter. With these comments I would like to handover to our CFO, Mr. Deepak Sogani.

Deepak Sogani:

Good afternoon everybody. We are very happy to report the highest ever quarterly sales from India of 1.67 billion tons in the reported quarter that is Q3, which is 31% Y-o-Y growth and on a nine-month to nine-month period we have seen around 20% growth. significant sales growth in line can be observed. as Angul ramps up, we will see volume metric expansion in the Indian sales. So, the theme or the business direction seems to be absolutely intact.

I am happy to report that Angul is ramping up very well, the CGP and DRI section started in January and we are likely to exit Quarter 4 in Angul somewhere between 3.75 lakh per month to 4 lakh tons per month and also, Raigarh is doing steadily between 2.75 lakh tons to 3 lakh tons per month, so ballpark at the minimum range of 3.75 and 2.75, we should be able to demonstrate an exit run rate in the month of March at 7.8 million tons, which is significantly higher than the 6.5 million tons that we are likely to do in the current year.

While we are exiting at 7.8 million tons, we are broadly guiding for 7.5 million tons of steel production in the next year from India and obviously the management focus given the exit rate. is to achieve significantly better numbers, but to ensure that we guide at a level where

we are absolutely comfortable, we are guiding the street to 7.5 million tons for the next year.

In the current year, as our MD has highlighted, we are likely to touch the target of 6.5 million tons given the fact that Angul is now both CGP and DRI producing.

Now my commentary on the EBITDA, we have reported 1820 Crores of consolidated profit or EBITDA in the reported quarter Q3, which is Q-o-Q growth of 11%. On standalone we have shown EBITDA of 1352 Crores, which is a Q-o-Q growth of 8% and it is important to note that this quarter obviously was relatively weaker quarter to begin with because the prices had dipped quite significantly. We saw the NSRs go down by almost Rs.3500 in the current quarter although from December onwards the prices have started picking up and we can now say that December onwards prices have started picking up and in January the prices are even better. So broadly as we speak relative to the NSRs we have realized in Q3, we are right now seeing prices better by almost Rs.2000, so the EBITDA will increase in the current quarter.

While the NSRs did decrease by Rs.3500, we saw the cost of steel due to raw material and efficiency factors reduced by Rs.2500, so to a very large extent the cost of steel reduction compensated for the reduction in the NSR. The cost of steel reduction of 2500 was largely driven by raw material cost reduction of around Rs.2100, but I must mention that the management initiatives to improve the cost of Angul and to make it the lowest cost producer in the country, which it already is have delivered about Rs.400 kind of per tons benefit.

Second commentary on the EBITDA side is on Oman. Oman obviously was a bit weaker in Q2. it did an EBITDA of \$16 million and in Q3 right now we have reported EBITDA of \$33 million, which is now better and in Q4 as we speak the Rebar prices have bounced to a level, which is about \$50 higher than the realization that we have got in Q3 and therefore we are looking to a much better Q4 EBITDA from Oman. despite reduction in the EBITDA per ton we have been able to witness an increase in our EBITDA on an absolute basis due to expansion in our volume, which obviously has been our main theme.

In addition to that, I would like to draw your attention to the management efforts being put in the international geographies, which has started yielding good results. In Australia we used to have a cash burn of almost \$4 to \$5 million per month. For the time being we have put both the mines in care and maintenance, we have brought the burn rate down to almost \$2 million per month.

In addition to that we are almost at the last leg of the mining approval for Russell Vale and we are hopeful that we will be able to get that by the end of March. so, next year we should

be able to mine almost 1 million tons plus from the Australian mines. Also, our Australian team has been strengthened quite significantly, we have a very seasoned and experienced Chief Executive Officer and a Chief Financial Officer and therefore both from a management point of view from an operational and approval point of view, we are likely to see significant improvements in the Australian business.

Also, happy to report that we have been able to file for the restructuring of the Australian debt in the Australian courts on December 5, 2019 and hopefully by the end of February we should be able to get to the next level of restructured debt in Australia. I cannot share more details about the restructuring at this stage given the fact that the matter is subjudice and the creditors have to vote, but we are quite hopeful given the fact that we have already build a fair amount of alignment with the lenders.

Also on the Mozambique business the management focus has improved as we have reported that the run rate of ROM production is likely to go up, right now it is at about 3 million tons per annum, it will go up to almost 5 million tons per annum and the benefit of that is at about 25% which will be almost 25% of our coking coal requirement, so that provides a natural hedge to our coking coal requirement and once Australia reopens in the coming year we will have additional 1 million tons coking coal from there as well. So, ballpark about 50% of the coking coal will be covered through our own backward integrated coking coal supply chain.

In addition to that Angul obviously is more efficient plant, larger plant, largest blast furnace, well configured closer to port and it will become significantly cheaper compared to Raigarh.

In Q3 that is the corresponding Q3 of last year, Angul's cost of steel was about Rs.800 per tons higher than Raigarh. At this point of time in the last reported quarter Raigarh is about Rs.1000 more than Angul. Already Rs.2000 benefit has come in in the last four quarters and we see fair amount of opportunity in Angul because still ramp up is going on. we have commissioned two coke oven batteries this year, which are providing additional Rs.40 odd Crores benefit per month and there are other benefits, but if I was to just list down the various benefits that are likely to come in Angul as we ramp it up further, I can see almost Rs.1000 per MT of steel cost reducing which will partly get offset because of CGP and DRI being a little bit more expensive. overall, we will be able to run the Angul plant more efficiently and at a cost competitive level, which is absolutely in line with our directions to the street.

. At the end of FY2019 our reported net debt was Rs.39084 Crores and we had said that through normal operating cash flows we will bring it down by 4000 to 5000 Crores and I

am happy to report that at the end of the third quarter in the nine months ended December 2019 we have brought down the debt by 3627 Crores, which is absolutely in line with the larger guidance that we have given.

In the last reported quarter our net debt has come down from 36501 to 35457 Crores which is a reduction of 1040 Crores. I want to highlight that in the last nine months due to foreign exchange fluctuations the reported debt has gone up by 417 Crores. if we just add this 417 Crores to 3627 Crores, almost 4000 Crores of actual debt reduction has taken place.

Now again we have been working on our business to make it more and more efficient. I would like to add at this stage that we have worked to make our working capital even more efficient in the nine-month period and we have been able to compress the same by a variety of initiatives. I would like to say that in June 2015 ,at one point of time, our working capital cycle was almost 165 days and we have brought it down in the last reported quarter to almost 30 days. The compression has been significant. even in the last three months there has been a fair amount of weekly rigor to monitor the working capital and we have been able to compress the working capital cycle. In the reported nine-month period we were able to generate almost Rs.1200 Crores, which has augmented our cash flow. we have been maintaining that we are building additional export volumes and have started building in our capital structure export advances. So, in the nine-month period ended December 2019 we have been able to gather almost 500 Crores from there also. So ballpark due to working capital reduction and due to some export repayment cash flows, that were generated we were able to support the operating cash flow and deleverage at a faster clip. There is one commentary that has been requested for, which is on the other business EBIT of around 240 Crores, several people have asked us the question and I would like to take this opportunity to highlight. In the other business side, we have some income from our power business, some from our cement business, we have a machinery division then we have some bricks and some other byproducts, which are gases, etc. So, all these categories contribute to other income and then foreign exchange gain loss also goes into that section. So clearly in the reported quarter we have seen the other income from all the categories that I mentioned ballpark of about 100 odd Crores and we have seen foreign exchange gain of around 120 Crores also in that category, so out of the 240 Crores, 100 Crores is due to normal regular byproduct categories, which obviously as we grow our business will further grow and they will go in line with our business.

The next category is interest cost where again people ask us the questions on the variance on the interest cost. If you see our global average cost of debt is around 8.55%, our debt has come down on a nine-month to nine-month basis by 3627 Crores, so our interest cost should have gone down by 78 Crores in these nine months versus the corresponding nine months,

but our interest cost on a reported basis has gone up by 41 Crores. So, there is a gap of around 120 Crores. One of the things that have to be clearly understood that due to the new accounting standard of Ind-AS 116 accounting the lease rental accounting is now a part of the interest cost. In the last year nine-month period we did not have a 51 Crore of expense, which is factored into the current nine months because of the Ind-AS accounting. Similarly, in Australian business in the last year the interest expense of Australia was being capitalized and this year the capitalization is not happening that is contributing to almost 75 Crores of variance in the reported nine months over the last nine months. Further in the Mauritius business where we have 765 million of loan due to the currency depreciation effect 33 Crores of additional interest has got booked in, in Mauritius versus the nine months. So, between these two, three categories fair amount of more than 100 Crores of additional interest cost levers have been notified to you. In addition to that because of increase in volume our BG charges, our other syndication charges are at a little higher clip by 20 Crores, but ballpark I think if you were to take back the major item because of Ind-AS accounting and because of the way in which the JSPL is or Australian business is now accounting for our interest, which is being expensed of versus being capitalized and due to the depreciation in reporting the foreign currency interest cost, these are the three main issues. On the pledge side happy to report that in our last quarter we had reported that we will bring down the promoter pledge by 400 Crores and we are on track although the actual pledge has come down from a debt level from 755 to 737 Crores which is a significant reduction from the peak of 1151 Crores., but we are on track on debt reduction part as this call has happened a little early, but we are on track to whatever solution we are working on and that should help us to reduce the promoter borrowing by almost 300 Crores. On an absolute basis the total shares of the company that were pledged at around 39.37%, which includes about 13%, which have been pledged to the banks for non-promoter borrowing matters as additional collateral given to the banks.

Other than that, the total pledges are just about 27% of the total company so it is not a very large number and we clearly see it is coming down quite significantly. So, with this our commentaries are over. The house is now open for questions. So please go ahead.

Nishant Baranwal:

Operator before we answer questions, I request everybody to please ask more strategic questions, we at IR are always there to help you with the data questions, Also if you could limit yourselves to two questions per participant it will be great. Thank you. With this let us open the call for question and answers.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Amit Dixit from Edelweiss. Please go ahead.

Amit Dixit: Congratulations for a good set of numbers. I have couple of questions. The first one is on demand particularly. Since we are guiding that we have started our CGP plant along with the DRI in Angul, where exactly do you see demand coming from? I mean the real demand, we have seen restocking quite apparent, but do you see real demand coming in and if so in which all segments?

VR Sharma: You see the steel demand in India and also abroad is quite stable. You see we are not in a commodity product rather into special products like specialty players for ship buildings, the specialty players for the oil tankers, specialty players for the cryogenic gases. In these areas the demands are pretty high. Another good demand area is the Indian Railway and the metro rails. Then the third products we deal in are the specialty structures. Nowadays we not only supply structures but we are also giving the solutions for the high rise multistorey commercial buildings. In the last 15 to 20 days we have found the demand of TMT that is Rebars has also increased. Over and above there is a change in the focus of our overall basket where we have now started exporting substantial quantities. So, our exports have increased multifold in the last two quarters and we are exporting at the rate of about 120000 tons per month. So, we are fully booked in terms of exports, plates, rails and structure mills. There is no dearth of demand. The additional quantity of 1000 tons coming from DRI, CGP and DRI route will be easily sold in the market in India as well as in the overseas market.

Amit Dixit: thank you! The second question that I have is on the potential impact of iron ore price increase. As NMDC has increased its iron ore price, we have been hearing that Odisha miners have also increased it and going by the initial indication from the street as far as the bidding is concerned the iron ore prices are expected to increase further and we are still guiding for around Rs.10000 per tons of margin in Q4, so just wanted to understand the overall impact that we are anticipating in terms of iron ore price hike in the market and as the commentary suggest how are we insulated from that? just wanted a little bit clarity on that 10000 number?

VR Sharma: The 10000 number is already in place now. If you compare the November 30, 2019 prices with the prices of today there is a net increase of Rs.2500. Now the question is if the iron ore price increase how it is going to impact the industry. First let me tell you about the industry. This is applicable to everybody, and the industry will definitely try to pass it on to the market because these are the uncontrollable factors in business like iron ore and coking coal prices. The customers also do understand because of them being well educated and informed. we are very much hopeful that we will be in a position to meet our 30% demand from our own mines, that is Tensa mines, and which is working very well. So, we are already insulated by 30%.we are hopeful about our stock lying in SMPL, if this material

comes to us then we are already insulated with the remaining 70%. So, as per our understanding, we feel that JSPL is in a better position in Q4 than the peer group. **Deepak**

Sogani:

I would just like to add on to what our MD has said. Firstly, from a raw material cost point of view, obviously, the coking coal prices had reached a low of almost \$135 per ton and they have started inching up a little bit and now they are at \$150 per ton. The iron ore prices had also gone to low 1700 and they are now right now at Rs.2200 per ton. So as per the trends in the industry when the raw material prices inch up, in general the steel prices also inch up, not only to cover the cost, but they also cover additional margin. So that is how the trajectory happens that on the upward move we see price increases, which are higher than the raw material increases and when the raw material prices soften by less and the price competition happens more. This particular period is actually beneficial because this will mean that there will be not only price stability, but we will also observe expansion in the margins prices. Secondly, based on how the China demand is going up, the international prices have also started going up. In China, the HRC in October was \$438 and now it is almost \$500, and this gives very strong indication that we will be able to see decent price regime in the next few quarters. As some of you may be aware that we have 12.22 million tons of iron ore fines that are owned by us, royalty paid by us, but lying in the Sarda Mines premises because that mine was shut down by the courts. The good news is that a couple of weeks back they have got a favorable order to restart the mine provided they pay their fines around 900 Crores, but in general if they start now they get about 2 years of life, and the profit is significantly higher than the fines that they will have to pay. So, I think it is a no-brainer economic decision for them to start, and if they start, we can evacuate these fines, which are now looking extremely certain. On the other matter, we were also in litigation in the court to give us permission to evacuate these mines because we have nothing to do with the Sarda litigation, Our hearings have been completed in the court. There were no objections to the matter. The Supreme Court has completed and said that they are going to reserve the order, and the order is expected anytime. The benefit of those fines is obviously manifold on one side. Whatever temporary disruption may happen because of the mine auctions, etc., we become completely insulated. That is one very large benefit. The second important benefit to note is that if the mine starts it is adjacent to our Barbil plant, and it is connected by a conveyor belt to our Barbil plant, that will increase the velocity of raw material availability to our Barbil plant, which has a capacity of 9 million tons per annum, but has been operating around 7 million, 7.5 million tons. Once this mine restarts and we are able to use the conveyor belt, to get material here, we should be able to increase the production of our Barbil plant by almost 1 million tons per annum. So, we will have additional pellets available for exports, which will further add to our cash flows. Further, Sarda Mines to Barbil comes through conveyor, so we save almost Rs.300 per tons in logistics also. The benefits are manifold and we are sitting at a

point where all the matters are concluded, just the operating and the process parts are remaining. Thank you.

Amit Dixit: Great Sir. Thanks for the comprehensive reply.

Moderator: Thank you very much. The next question is from the line of Rajesh Lachhani from HSBC. Please go ahead.

Rajesh Lachhani: Sir, my question is with regards to your deleveraging. So clearly your focus on deleveraging is quite apparent and you have further delevered in this 3Q FY2020 as well. My question is with regards to the quantum. So, basically if I see your EBITDA was 1820 Crores and your interest cost is around 1040 Crores and even if we assume 150 Crores to 200 Crores of capex can you just reconcile it how we have delevered by 1100 Crores in this quarter?

Deepak Sogani: Yes, I had given this as opening commentary as well. So, there are 2 strong levers. Your point is valid. We have our overall global EBITDA of 1820 Crores, interest paid was around 1000 odd, available was around 800, capex was 200, net available was 600, but the debt reduction is around 1000, so around 400 Crores of additional leverage has happened over and above the free cash flows available from the business. We have been able to further improve the working capital efficiency as well as we have started generating export prepaid advances as we are exporting more, and as far as capital structure is concerned, we are now raising against our trade additional advances. So, in the trade category, both of these levers are becoming quite favorable for us, and as a part of the capital structure, we further want to improve the efficiency of our working capital, so that the export prepayments becoming quite positive, which is supporting the deleverage higher than the operating cash flow. Focus is to find initiatives.

Rajesh V. Lachhani: Great. Sir, my second question is with regards to the Angul CGP and DRI operation. So, in terms of cost can you just quantify how much lower is or how much higher is the cost with regards to Angul blast furnace and the Raigarh facility?

VR Sharma: The operations have just started about 10 days back. So, we are ramping up now. We started with 3000 tons per day. Now it is 4000 tons. The moment the production reaches to 6000 tons per day, we equalize the cost of steel manufactured through BF route versus DRI route. Today it is costlier by about Rs.1000 to Rs.1200 a tons, which is very well within the limit of the overall costing and it is giving us a positive EBITDA in terms of overall sales figures. So, by the time we reach to 6000 tons because it is a process industry, you have to be consistent about coal availability. So, we are on line. we have decided that within 15 to 20 days' time we will reach to a level of about 6000 tons per day and we are on line on this. So, everything is going well and as per plan. **Rajesh V. Lachhani:**

Understood and Sir, last one, if I may. Sir, we have a finished steel capacity of 6.55 million tons and we are planning to produce 7.5 million tons in FY2020. So, just wanted to understand, what would be the product profile when we reach 7.5 million tons?

VR Sharma:

Our product mix is very flexible. The beauty is we have hot rolled coils, we have plates, we have specialty plates up to 5-meter wide. We have rails. We have angles, channels, beams, power transmission steel. We have so many other kinds of steel for railway like corten steel for the wagons. So, all these products makes the basket very large. So, our decision is never on the basis of a particular set of baskets, rather on the basis of availability of the market. we can maneuver our basket and the composition of the basket. From 6.5 million to 7.5 million tons will directly impact the overall efficiency. Second, the DRI will definitely add to the production of the steel. Then we watch the market and accordingly act. Like, for example, today we see that the long market is better than flat market. So we produced more long than the flat, but we still maintain a minimum production of flat like coils and also like plates, but tomorrow if we see that there is a change in the overall requirement in the market, so we are so flexible that within no time we can switch over to more products from rail mill or more products from our beam mill or more products from our specialty plate mill or from rail mill or from our hot rolled coil division. over and above, there is another product, which is called GPI, that is granulated pig iron, which is a very unique product in the country and we are the only exporter today from the country who is exporting this GPI. So, GPI is again a very large market. Hence, the basket is very big, very vivid, and we make our program accordingly that whichever market is giving us the best results in terms of EBITDA then we can achieve that. our Patratu is doing well as far as the rolling is concerned. For the exports of billets and the GPI that is Panther Shots and hot rolled coil we have 2 routes available today, one is hot rolled coil for the standard from 5 millimeter and above from our Raigarh plant, and if the need be then we have next-door neighbor, our group company JSL where we can send our slabs, and we can get the coils made out of our slabs. So that is also flexibility since we are very near to Paradip Port and Gopalpur port, Dhamra Port. So, it gives us an added advantage that we can export to the international market.

Rajesh V. Lachhani:

Sir, I understand that, on more specific, even if we operate at 90% of utilization level, the finished yield usage would be 6 million tons, and still will be having 1 million tons, that is 1 million to 1.5 million tons additional so I am saying our semi-finished product or GPI product mix would increase significantly next year so that is where I was coming from?

VR Sharma:

No. Because our rolling mill capacities are pretty high. For example, we have all rolling mill capacities today in all the locations is more than 10 million tons. up to 10 million tons

we can do the finishing, but we are not adding water to the glut because we never like to maintain some products where we reach to a glut situation. we are a profit-making company be it semis or be it finished goods, wherever there is more profit our aim is to make profit. So, our aim is not to utilize the rolling mills, our aim is to utilize the steelmaking and then distribute into different products. **Rajesh V. Lachhani:** Understood Sir. Sir that is quite elaborate. Thanks for answering my questions.

Moderator: Thank you very much. Next question is from the line of Ritesh Shah from Investec Capital Corporation. Please go ahead.

Ritesh Shah: Sir, I have three questions. Sir first is we have debt repayment schedule for overseas operations at 1800 Crores, how do you plan to refinance this and any particular update on Botswana that is the first question Sir?

Deepak Sogani: So, Botswana is on track. The SPA has been extended to March. I think the party has obviously concluded the diligence, they are trying to tie up the finances, and they remain quite excited about the opportunity so that is where the Botswana is. As far as the international debt is concerned, we have about \$150 million of debt that is payable in Mauritius, which is scheduled in March, for which while Botswana is one possibility, but we are also working out other possibilities. A, we are looking to do a foreign currency bond in the Mauritius region. I expect it to happen in February. So, that project is going on and should be taking care of that particular repayment, but in addition to that as we have been mentioning, right now in India we are seeing surplus liquidity coming in through multiple pools. We are now citing almost 3000 Crores of iron ore stocks that will become released to us shortly and as I have been mentioning that our export prepay balance sheet is becoming stronger. On the scale and size of the company we typically have export prepays, which can be in excess of \$0.5 billion. Our prepays are much smaller, maybe just about \$100 odd million at this point of time. So, there is a lot of headroom available in terms of our export prepay and now that the pellet production will go up in India, given the fact that we will have excess and larger raw material available to Barbil plant and also lumps available from the Sarda Mines once it starts for our operation in Angul and Raigarh, therefore some pellets can be substituted with lumps. We should be able to increase our pellet exports by order of magnitude. So, I think all of these levers provide one very strong lever from an export prepay side, certain cash getting generated through the normal iron ore that gets related, but bond project anyway is on top of it, and Botswana is there. So, we have many plans and we are working on all of them.

Ritesh Shah: Yes, Sir. my second question is, Tamil Nadu PPA 200 megawatt has gone. Earlier we had indicated about 515 megawatt NHPC. is there any update over here or are we looking at

lower power volumes as we go into Q4 and probably into Q1, also Sir we had earlier indicated about West Bengal on Gujarat PPAs. Sir any update over here?

Bharat Rohra: Well, the TANGEDCO PPA, which expired in August 2019, was at a pretty low rate, so it was not worthwhile continuing, and it was a medium-term contract, so it could not have been continued. However, NHPC embarked upon an aggregation scheme in which we were the frontrunners for getting about 500 megawatts of PPAs, but due to certain reasons NHPC could not get the PPAs signed and hence the government decided to cancel it as an aggregator. They have appointed PFC to do the same thing because PFC had done it in the past so they told them to redo it and they have already issued the tender documents. The bids are being submitted in another couple of days and by the end of the month there would be a reverse auction. Here again we are anticipating to bid for in excess of 500 megawatts. So, let us keep our fingers crossed and try to grab this to the maximum extent as possible.

Ritesh Shah: Okay. Sir, last question, if I may squeeze in?

Nishant Baranwal: Ritesh, I will have to come here, buddy. I am really sorry. There is a long queue, there is a very long queue, and probably we will take them first. Thanks.

Moderator: Thank you. Next question is from the line of Atul Tiwari from Citigroup. Please go ahead.

Atul Tiwari: Sir, just a very quick question on the status of Angul DRI and gasifier, how much is the run rate that you guys have managed to achieve as of now and what is the plan of ramping it up over next couple of months and is there any technical issue that you are seeing in the project?

VR Sharma: There are no technical issues. The plant is pretty stabilized. We are now finding the right quality of coal and the consistency in the coal supplies. So, the MCL's Chairman, Mr. Shukla, he visited us in the last week, and Government of India has also given a great thrust and focus on gasification. If you see the statement given by Honourable Minister, Mr. Pradhan in the last week that is on January 13, 2020 in Kolkata, he has shown his interest to gasify at least 100 tons coal per year in the country for steel, power, fertilizers and for different sectors. So, the government has the focus so are the coal mining companies like the Coal India and MCL, and this is the reason the MCL Chairman visited our gasifier. He was so happy, and now he has already arranged to maintain the consistency of the gasifier. they will supply us the coal from a particular mine, which is very close to us so that we do not face the coal shortage or the coal quality issues. So today we are running at a rate of 160 tons per hour and this will reach to 200 tons per hour very shortly. We started at 140 and Now our next target will be 170. So, by a multiple of 10 tons per hour we intent on keep increasing our production. So, the plant is doing excellently well. It is performing very well

as per the expectations and I am sure in next 3 to 4 days' time we will reach to a level of 200 tons per hour. This means 5400 tons which is the capacity of this plant. This can further increase, but our initial aim is 200 tons per hour production. Plant is stable. The gasification is stable. DRI plant is stable. There is no problem at all.

Atul Tiwari: And Sir any rough color on the cost that you are seeing in terms of the raw material, is it comparable to the rest of Angul operations today are on the higher side or the lower side?

VR Sharma: The rough color is, when you make through DRI route and you have to buy coal from Coal India or MCL and then we have to use it into NOF that is electrical furnaces or oxygen furnaces. The advantage in this particular route is, first of all, the energy cost because it is a hot link directly from DRI plant to electric arc furnace, thus, it goes straight. So, there is nothing in between except for a conveyor. So that is fed at a level of about 650 degree centigrade, which is a very high temperature and we save in terms of energy. Now as far as the cost is concerned, the cost depends upon 2, 3 things. One is what is the price of pellets and what is the price of gas. So, the pellets, we are using our own internal pellets. If we compare the pellets at a cost, what is our internal cost and we compare with the gas at a cost of \$7.5 per MMBTU, which is coming today then we are at par with the blast furnace route at a level of 200 tons per hour. So today we are running at 160 tons per hour. we are a little higher than the blast furnace route, but we will overcome this in next 3 to 4 days' time. So maybe we will be better than the overall costing because of the energy saving so this is what we want to demonstrate to the whole world that the first plant in the world, which is based on the coal gas that is called Syngas. we have been running this intermittently in past also, but now we are running it regularly because there is a support from the Coal India and from the MCL. So, thanks to them and thanks to the Chairman of Coal India and the subsidiary of Coal India, MCL, Dr. Shukla, and he has visited us and has supported us. So, I think there should not be any problem. The cost impact will not be there. The assets were idle and now we have to utilize these assets. So that is most important for us and that will add about 1 million tons production in a year or maybe 1.2 million tons. **Atul Tiwari:**

Yes. Sir, and just one last clarification. The \$7.5 per MMBTU gas cost, so it includes the raw material as well as depreciation and interest linked to the coal gasifier so this is all in cost of producing that gas or does it include only the raw material and not the depreciation and interest?

VR Sharma: When we consider the total steel-making cost, today the whole world goes for the crude steelmaking. The crude steel making for each industry and each company have different cost parameters in terms of depreciation and interest.. Now the question is that where is the \$7.5 because when we take the cost of coal, then there are certain assumptions which we had to do, like the washed coal. The washed coal, after washing, the coal goes to the

gasification whereas the rejects of this coal are being utilized for the power generation. So ultimately, we have to see out of the total pocket., so, we are landing at a level where our cost of making steel through DRI route is similar to the cost of making steel by the route of blast furnace or any other methodology. We are not concerned about in standalone because there is no different balance sheet for the plant. There is one common balance sheet, common interest, common depreciation, but I can assure you that the cost is similar and there are some added advantages. For example, the byproduct is changing the game because the byproduct of coal gasifications like tar, phenol, solvents, gas oil, naphtha, ammonia, these are very high value-added products and we come into positives in cost less recoveries. So that is a different thing. **Atul Tiwari:** Thank you Sir. Thanks a lot.

Moderator: Thank you. Next question is from the line of Girish Achhipalia from Morgan Stanley. Please go ahead.

Girish Achhipalia: Just a couple of things on the power side. Your EBITDA per unit is roughly 1.3, 1.35 per kilowatt hour. Now with coal mines being auctioned or linkage being auctioned, you also suggested that you have access to cheaper coal moving forward. Just wanted to understand like what is the quantum because you have 7 million metric tons, which you have auctioned at lower prices so what is the EBITDA that you can generate and over FY2021? how do you look at the coal mine or the auction or the linkage auction taking place and the second question I have is on the interest cost on the power side if you analyze the interest cost it comes up to 13% so is there a reason why it remains at that level, is it linked to your rating in the power division or is there any one-off in the interest costs, which can come down on a going-forward basis?

Bharat Rohra: Well, regarding the auctions, I would give you a correction. I had mentioned 7 lakh tons and I think you have understood as 7 million tons.

Girish Achhipalia: Yes. I apologize.

Bharat Rohra: Yes. So that 7 lakh tons is good for me in the fourth quarter and I expect a much better EBITDA level in this fourth quarter without giving you specific numbers, but as regards the auctions are concerned there are two types of auctions now the government has come out with. The first one is that they will be giving a linkage to the people who do not have PPAs, and then after winning that auction they will have to get into a PPA with somebody over the next 2 years. If they are not able to enter into a PPA then their linkage would. More exciting is the commercial mining, which has been declared last week. We are sitting over a belt of coal and we have coal almost over a radius of 200 kilometers, there are a large number of coal blocks. We will be bidding for one such coal block, which is strategically located for JPL and we would commercially mine it and use it in the plant. Our target is to bid for at

least about 15 million tons of coal and I am sure the government having announced about 80 mining blocks; such a quantum would not be difficult at all. So, from the next financial year we would start getting coal from these mines. **Girish Achhipalia:** So, there is no new approval for mining plan that will be required. I am assuming the strategic asset that you are talking about there will be no new approval for mining plan, which will be required here?

Bharat Rohra: You see they are putting into this commercial mining auctions, mines which were already operational like Gare IV/7. Now these mines already had mining approvals in place and as soon as a bidder is declared the previous mining approvals would get shifted to the new mining company. So that would be a much faster process rather than developing a new mine because developing a new mine I am sure will take about 4, 5 years, but such a transfer of mining rights would be done over a couple of weeks and as regards the interest cost, our CFO would like to enlighten you on that.

Deepak Sogani: So, I guess taking on the question of interest. The interest is obviously a fixed cost given the fact that we have debt of around 7300 Crore outstanding in the balance sheet of the power business and the interest cost that has been kind of reflected in the financial results translates to about 11.11% or some such percentage, which is a blended interest cost at this point of time and I heard you talk about this being as a percentage of...

Girish Achhipalia: 13% interest rate.

Deepak Sogani: So, I think the cost is a bit lower.

Girish Achhipalia: 6800 Crores, is that the net debt number?

Deepak Sogani: No. The gross debt is 7300 Crores.

Bharat Rohra: 6800 Crores is excluding the working capital debt.

Deepak Sogani: So, I think this is not the issue. Issue is obviously on the interest cost and debt side. Debt obviously is the cheapest debt per megawatt in the industry. Our competitiveness is the best because as the last aggregation came out from NHPC we were the L1 by a huge margin, so our competitiveness has been established beyond doubt. Our debt levels are lowest in the industry again by a far margin. I think all we are now waiting for is to get some uptick in the aggregation that looks like on the anvil round the corner and some more coal cost reduction by the coal availability initiatives that the government is taking and as and when we are able to kind of increase the utilization level of our plant we were just seeing that the power business is at the cusp of making a very significant shift at this point of time. So next year broadly it looks much better.

- Girish Achhipalia:** Thank you so much Sir.
- Moderator:** Thank you very much. Next question is from the line of Prashant Kumar from CGS-CIMB Securities Private Limited. Please go ahead.
- Prashant Kumar:** Sir, congratulations for a good result in a challenging quarter and the deleveraging that you have done during the quarter. Sir my question is regarding next year's potential deleveraging. Going by your guidance of 7.5 million tons and assuming the spreads remain as they are now and they do not deteriorate we are probably looking at and if you include the iron ore dumps that we could get from Sarda Mines we were probably looking at a deleveraging potential of 9000 Crores to 10000 Crores, if I am not wrong wanted to know your views on this?
- Deepak Sogani:** No, so I think our job is to perhaps save the current state of affairs and guide what we believe at this point of time. I think our earlier guidance of 4000 Crores to 5000 Crores delevered per year is quite intact and that is on the net debt basis.. Clearly, our volume is going up, therefore, free cash flow should increase. Our debt obviously has gone down and will go down. The scheduled debt repayment also therefore is going down over the next 1 year, 2-year, 3 year there is a steep decline in the scheduled repayment of the debt. Obviously, we have the possibilities as follows. We can obviously deleverage at a higher clip or we can obviously have excess cash in the balance sheet to some extent to take care of a variety of risk management structures. So, either ways the net debt will certainly come down by a larger number than 4000 Crore.
- Prashant Kumar:** Great. Sir just a quick book-keeping question. Sir, what would be the maintenance capex at a consolidated level on a full year basis across India, Oman power and the coal business?
- Deepak Sogani:** I think the ballpark other than India in power business there is not much of maintenance. Ballpark we are seeing about 700 odd Crores and at this point of time we are quite comfortably tracking it. So, that is the number.
- Prashant Kumar:** Great Sir. Thank you so much.
- Moderator:** Thank you. Ladies and gentlemen, we will take the last question from the line of Amit Murarka from Motilal Oswal Financial Service. Please go ahead. Due to no response, we move on to the next participant. The next question is from the line of Puneet Bansal from IDFC FIRST Bank. Please go ahead.

Puneet Bansal: My question is how is the inking of U.S.-China trade deal going to impact the Indian steel players particularly JSPL. When the news came the Indian metal stocks reacted positively to it. I wanted to understand it better?

VR Sharma: You see, China and America they have been talking for the last 5 years. One over another, there is a blame and counter blame strategy. Yes, in this whole situation, the entire world, not only Indian steel industry in particular, is under trouble because the international financial market, the bond market, the stock market, the derivatives, everything goes haywire when two large economy of the world do not reach to a conclusion. We do not know what is going to happen because neither we control China nor we control America, so both are different economies and very large economies. Now India itself is a self-sustainable economy. India is a large country with 130 Crore people, and we have demand available within the country. The only problem is whenever there are some hiccups in the Middle East, or in the international and political situation, the whole exchange rate goes in a different direction which is both an opportunity and a threat. So, when it opens opportunity, we start exporting a lot, when it is a threat that means we have to be dependent on the domestic purchases. To be very honest we have stopped thinking on China and American relationship. We have to have our self-sustainable model, and this is what we are aiming. JSPL has a full basket of the products. We feel that we are insulated as against of the U.S., and Chinese policies. So, whatever they do, whether the international market goes up, goes down, we have different avenues to sell our products at a better price. So, we are not concerned and we are not worried about it. Yes, of course, the country as a whole is not insulated because of the oil prices, international financial market situation, international bond prices, international stock prices so that definitely effects the financial markets. But as far as the JSPL's overall strength is concerned we are not very much concerned about this. So, we switch over to exports and we switch over to domestic market according to the revenues.

Puneet Bansal: Thank you.

Moderator: Thank you very much. I now hand the conference over to Mr. Sumangal for closing comments.

Sumangal Nevatia: Yes. Thanks, Nirav. I thank the JSPL management for their time to discuss the results and giving Kotak Securities the opportunity to host the call. Mr. Sharma would you like to give any closing remarks?

VR Sharma: Thank you very much. We are very much optimistic and hopeful that we will be doing much better in the coming quarter and we assure to our stakeholders and our shareholders



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and the media people and also our respected investors, please keep faith in us, believe in us and believe in our capabilities. We will sail through in a much better way in times to come.

Sumangal Nevatia: Thank you very much.

Moderator: Thank you. On behalf of Kotak Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.