"JSW Steel Q3 FY-21 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to JSW Steel Limited Q3 FY21 Results Conference Call hosted by IIFL 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 at the end of today's presentation. Should 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. Anupam Gupta from IIFL Securities Limited. Thank you and over to you, sir

Anupam Gupta: Thanks, Ayesha. Good evening, everyone and thanks for joining in for JSW Steel's 3Q '21 Earnings Call. Firstly, I'd like to thank the JSW Steel management for giving IIFL Securities the opportunity to host the call today. I would hand over the call to Ashwin Bajaj – Group Head Investor Relations for JSW Group, to introduce the management and take the call forward. Over to you, Ashwin.

Ashwin Bajaj: Thank you very much, Anupam and thanks for hosting the call. Good evening, ladies, and gentlemen. This is Ashwin Bajaj and it's my pleasure to welcome you to JSW Steel Q3 FY 2021 Earnings Call. We have with us today the management team represented by Mr. Seshagiri Rao – Joint Managing Director and Group CFO; Dr. Vinod Nowal – Deputy Managing Director; Mr. Jayant Acharya – Director, Commercial and Marketing; and Mr. Rajeev Pai – CFO. We will start with opening remarks by Mr. Rao and then open the floor to Q&A. With that over to Mr. Rao.

Seshagiri Rao: Good evening and welcome you all to the briefing of the financial performance for the Q3 FY21. I'm very happy to share with you that JSW Steel has been rated by CDP for climate action to the leadership level of (A-) when Asian companies' average was D. So this is in recognition of the focus which JSW Steel is giving on sustainability. It is into our core of our business where we know we can create some significant impact and we have set fairly very ambitious goals. These goals are aligned with what India has committed as a part of the Paris Agreement. So we have set ambitious target to reduce our CO2 emissions by 41% by 2030 from 2005 levels and achieve a net carbon neutrality at our coated operations.

Over and above this environmental target, on the social front, safety at all our sites is very- very important for us and we're focused on zero harm for all our people and employees. We continued to strengthen our safety programs and training, leading to 3,30,000 safety observations this year. There has been a 12.5% reduction in the LTIFR this year versus FY20. Through JSW Foundation, we empower communities located around our plants across 15 districts in 11 states. It works within the areas of health and nutrition, education, youth empowerment, ensuring water security and sanitation. Today, JSW Foundation positively impacts 1 million lives daily. So we have attached two slides on sustainability in our presentation, which gives a lot of details and the importance and trust as a company we are giving on sustainability.

Coming back to the global economic situation; after the COVID-19 crisis where global activity, economic activity has come to grinding halt, then a slew of measures is being taken by various governments and the central banks. So a very large fiscal stimulus, which is equal to 12% of global GDP that has been given by the various governments, further supported by huge liquidity infusion by central banks where their holding of government debt is over $25 trillion today. So there is a lot of liquidity that has been provided a lot of support that has been given by the governments to tide over the Corona Virus issues. With that, the rebound in economic activity which we are seeing, it is expected the year 2021, there will be a growth of 4% as against decline of 4.3% in the year 2020. So this positiveness is coming based on two assumptions: the huge liquidity which is there today is not expected to go down or withdrawn soon and the COVID vaccine application will be accelerated and the fear of COVID will be behind us. These are the two major assumptions based on which the global economy in the year 2021 is expected to show a growth of 4%. The recovery in the overall economic activity has also got reflected in the way of very robust recovery in the steel demand. The underinvestment in the construction and infrastructure sector across the world that picked up, so that has translated to very good recovery in the overall steel demand in the global markets that is also seen by good realizations and increase in steel prices.

In India, after having seen the worst contraction in the steel demand in the overall GDP in June 2020, because of again measures taken by the government and also accommodative policy followed by the Reserve Bank of India, we have seen a good recovery in the auto sector; large infrastructure projects have restarted; real estate, there is a traction. The government announcement of PLI scheme for boosting manufacturing in India also has some impact. Government has also announced that the manufacturing overall, they want to take to $1.175 trillion by 2030. So that way this year, that is FY22, there will be a very good growth, a very good recovery, and the momentum to continue as far as India is concerned.

If I see the steel demand in India in the month of April was just 1 million tonnes. In the month of December, it went up to 10.28 million tonnes, which is 10X of what we have seen in April. So that is the kind of robust recovery in the steel demand in India. It is starting from rural India to every sector, packaging sector, large infrastructure projects, white goods, warehousing. So in several sectors, we have seen a very good traction that is reflected by growth of 19% in the month of December year-on-year basis in steel demand in India. If I see from that angle as far as JSW Steel is concerned, this is the best quarterly consolidated EBITDA. We could achieve this number majorly due to improvement of iron ore supplies. Iron ore integration in the last quarter went up to 49% compared to 26% in the Q2. So this enabled us to improve our capacity utilization to 91% in the Quarter 3 from 86% in the Quarter 2. In the month of December, the capacity utilization was over 94%. So the integration of captive iron ore mines and easing of logistic constraints that enabled us to get iron ore to our plants and improve the capacity utilization in the last quarter.

In line with the improvement in the domestic demand, we have also moderated our exports, our exports in the last quarter was 12% as against 28% in the Q2. We also completed the acquisition of Asian Color Coated on 19th of October 2020. So these results will include the 2 and half months performance of the Asian Color Coated.

The blended net sales realization for the quarter went up by 20% quarter-on-quarter basis and year-on-year basis, it went up by 26%. The iron ore prices went up in India. It went up from Rs. 1,960 in the month of June 2020 to Rs. 4,610 in December and further up by another Rs. 200 later, so there is 135% increase in the iron ore cost. When international prices went up by 94% in the same period, Indian iron ore price in percentage terms went up much steeper relative to what happened in the international markets. So due to which, the costs have gone up on a quarter-on-quarter basis by 8% and the year-on-year basis by 2%. But in view of higher-capacity utilization, lower fixed cost and the good product mix and moderation of exports and higher domestic sales, all these led to higher margins in the quarter. On a stand-alone basis, the margin per ton was Rs. 14,449, which is 29.3%.

The production for the quarter is 4.08 million tonnes and the consolidated sales were 3.95 million tonnes. As I mentioned, the domestic sales 3.48 million tonnes, which is 13% higher. We could increase our logistics sales as auto sector has done extremely well. So our sales to auto sector on quarter-on-quarter basis went up by 30%. Our retail sales went up by 35%. Our value-added steel sales as a percentage of the total sales went up to 57%, which is a 7% growth quarter-on-quarter. So the EBITDA on a stand-alone basis, we reported Rs. 5,633 crores, again a 35% growth. The profit after tax on stand-alone was Rs. 2,829 crores.

Our overseas subsidiaries could reduce the overall operating cost further down. So if I take out one-off items and then look at the operating EBITDA for the Q3 was 124 crores from overseas. If we include the one-off items of 84 crores, it comes to 208 crores. The Indian subsidiaries, Coated Asian Color, Industrial Gases, ARCL, altogether contributed cumulatively 702 crores. After taking the losses in the overseas subsidiaries and the positive EBITDA from Indian subsidiaries, the consolidated EBITDA was 5,946 crores. It is the highest-ever EBITDA for the company. It is Rs. 15,070 per ton, which is higher by 35% quarter-on-quarter. The profit after tax was 2,669 crores. So this is how the performance for the quarter unfolded.

As regards to the projects which are under implementation, the Vijayanagar project is under implementation, the pellet plant is under heating, it will get commissioned before end of this month. Part of the pellet produced can be used in this quarter. That benefit also will come by replacing the lumps which we are buying in the market and increasing the productivity at Vijayanagar plant. The CRM-1 will get completed by March '21, as we have been guiding. Excepting the coke oven plant and the color coated line, balance all units will get commissioned in this quarter at Vijayanagar. At Vasind, Tarapur and Kalmeshwar, one galvanizing line, the tinplate, and the CAL line, they will get commissioned in the next year. Balance all units will get commissioned before 31st of March '21. Dolvi, we are very close to commissioning the units. They are all ready. The only concern which we have is getting visas for foreign technicians and equipment suppliers who must be necessarily present at the site, who help us in commissioning of the units. For some of the places, particularly China, where we have some issues in getting the visas for them, we are working very hard to see that this project is completed. But what we can guide right now is that the integrated operation may slip to the Quarter 1 of next year, particularly the melt shop. That is the area where we have some issues in commissioning in this quarter. So that may get postponed to the Quarter 1 of '22.

The total debt of the company is a leveraging story as far as this quarter is concerned. We have brought it down to 51,793 crores. The debt to EBITDA has come down to 3.53 and the debt to net worth is 1.29. We could reduce the debt by 1,100 crores in this quarter and for 9 months, it is 1,680 crores. So the reduction in the debt has happened after completing the acquisition of Asian Color, where we have made investment of 1,550 crores. So the EBITDA for 9 months, close to 11,700 crores, which is almost equal to what we have received for 12 months in the last financial year. So the incremental cash generation in the operations and release of close to 2,600 crores from the working capital in the 9 months we have used for reducing the debt of the company. The total capital expenditure, which was incurred for 9 months, was 6,318 crores. So we will be within the guidance of 9,000 crores for the year that we have provided in the beginning of the year.

We have given the guidance of 16 million tonnes production and 15 million tonnes sales. As against 16 million tonnes, we have achieved 10.89 million tonnes for the first 9 months. So if we must complete the guidance of 16 million, then we must produce close to 5 million tonnes in the Q4, which is not possible. So when we gave the guidance of 16 million tonnes, we thought whatever we have lost in the Q1, 1.2 million tonnes, we'll be able to make it up in the Q2-Q3-Q4. Because of iron ore shortages, even though we produced in line with last year, we could not make up the loss that has happened in the Q1. That is why we will be at 95% of our guidance in this financial year in terms of production.

As far as volume of sales are concerned, 15 million tonnes guidance we have given for the year. We have achieved 10.95 million tonnes on a consolidated basis. We should do around 4 million tonnes for the Q4, we are very confident that we'll be able to achieve our guidance for the sales.

One more important achievement in this quarter is that the turnaround of Monnet Ispat. So the company's name has been changed as JSW Ispat Specialty Products Limited. We have been guiding that within 2 years, we'll be able to turn around this company. This is the first quarter after we took over, the company made an EBITDA of 152 crores and a net profit of 29 crores. So with that, I request any questions are there, we'll be able to clarify. Thank you.

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.

Amit Dixit: I have two questions. The first one is on debt reduction plan in Q4. So we see that the operating environment is quite conducive, and we might have good cash accretion. So what kind of debt reduction plan you have in mind for the current quarter?

Seshagiri Rao: We have certain inorganic growth, as you know, Bhushan Power & Steel, BPSL must be done. In case Supreme Court adjudicates the pending litigations, then we'll not be to guide about reducing the debt in this quarter. Assuming that BPSL is not there or we exclude the cash required for BPSL, then the overall debt levels will come down in this quarter. I don't want to give a number how much it will be reduced, but it will be lower than what you have seen as on December 31, 2020.

Amit Dixit: Second question is on Dolvi. Now since you have indicated that the integrated operation has been pushed to Q1, so is there any quantity or the production of steel that you can guide from Dolvi in next year?

Seshagiri Rao: That we will be able to come back in the month of May 2021 with final numbers. Integrated operation pushed to Q2 doesn't mean that we will not get production from expansion facility at Dolvi. It will be available for a significant portion of next financial year. Only one unit like melt shop, there are some delays, delays in the sense in getting the foreign technicians, visas for them. That is the area where we are finding some difficulty, but we are working very hard to see that even that is commissioned as early as possible. If at all, it is not workable to get visas and get the technicians at site, then the integrated operation will be done in the Q1 of next year. Actual guidance about quantum of production accurately we'll be able to give in the month of May '21.

Moderator: The next question is from the line of Vineet Maloo from Birla Sun Life.

Vineet Maloo: My question is regarding raw material availability. So could you guide in terms of ramp-up of captive mines that we had won in Orissa, what kind of volume we have done and what is the outlook in terms of Q4 and for the next year?

Seshagiri Rao: Ramp-up of the annual production started happening from November where we got logistics availability and the easing of the constraints that were there prior to that. We also got the siding into our custody from November onwards. With that, we could increase the ramp-up production and dispatch also more. So we are at a level of close to 1.8 million to 2 million tonnes. That is the level at which we are producing and dispatching right now. I think we should be able to maintain that going forward.

Vineet Maloo: That will be the run rate should we assume for next year on an annualized basis?

Seshagiri Rao: Yes.

Vineet Maloo: My second question quickly is that you mentioned that you've seen sharper increase in domestic iron ore prices. In that situation, does it make sense to import for us, I know we've done that in past, but is it feasible for us to import adjusted for grades and impurities, etc.?

Seshagiri Rao: No, in India, the steel plants are set up not to import iron ore, excepting in exceptional circumstances. Only advantage that is available to Indian steel companies is domestic iron ore. Anyhow, we must import balance all raw materials, whether you take steel-grade limestone, or you take any ferroalloys, or you take refractories, or you take coking coal, they all must be imported. Therefore, the intention is to make iron ore domestically available to steel sector, either captive or to buy in the market.

Vineet Maloo: I understand this because in specific situations, there are shortages and price shoot up too much. So that's why I was asking, I mean, does it make sense in commercial sense to import based on grades and impurities adjustments, that's all?

Seshagiri Rao: It is a dynamic situation. We can't say we will not do. So we continue to evaluate for different units of JSW. So the port-based plants like Dolvi, we continue to evaluate whether to get from Orissa or to get from NMDC Chhattisgarh or to import. So based on it, we'll continue to take the calls on it. It's a dynamic situation.

Moderator: The next question is from the line of Pinakin Parekh from JPMorgan.

Pinakin Parekh: My first question is just to understand the steel market at this point of time. What we understand is that different export prices in the world are quoting at different levels. Japan is over 700, Russia is over 700, China is at 640. For an Indian consumer today, what will be the landed price of steel and what are the domestic mills charging at this point of time?

Jayant Acharya: So the prices internationally over the last month have gone up substantially, I think by and large, across all geographies of the world. And that has been reflected in India as well. The primary reason for that has been the supply gap, which was there due to production cuts in the first half, reduction in inventories, which were carried out by customers across the globe. And when the demand came back, there was a gap in the system and the prices have reflected that, also on the back of a high iron ore price globally. I think India has been by and large following the international market with respect to the price increases. So we have increased the prices monthly, depending on the international price movements. So for the month of January, the spot prices for hot-rolled coil, for example, went up by about Rs. 2,000 per ton. And for long product, it went up by about Rs. 2,500 per ton on a spot market basis. Contractual prices, as you are aware, continue to be constant on a quarterly basis or on a project basis. And that is held for the period of the contract. Except in certain cases, where there are some moderations which are required, other than that contractual prices are held for the period of the contract. So by and large, movement reflecting international numbers in India as well.

Pinakin Parekh: My second question is on Mr. Rao's initial comments that if the Bhushan Power acquisition goes through, the payment would have to be made and hence the debt would change accordingly. So does it mean that if the Supreme Court were to allow the structure that was originally thought has undergone a change and JSW would look to acquire 100% fully of Bhushan Power or would it remain an off-balance sheet item for the company?

Seshagiri Rao: Supreme Court is not going to decide what structure we need to do. The resolution plan, whatever we have submitted and the intention of the company not to consolidate once we acquire BPSL will remain. I don't think that will change. The issue is only equity investment part of it must go from JSW Steel. To that extent, cash balances that are available will come down, to that extent net debt goes up. That's why when I talked about deleveraging; we talked excluding BPSL, which is uncertain even today whether it will happen in this quarter or not.

Pinakin Parekh: Last question is that the three moving parts between steel prices, the company's iron ore cost and we have seen some increase in coking coal prices. If steel prices were to stay constant at January levels, would margins still expand in the March quarter or the cost pressures are too high and margins we would not see margin expansion on a per ton basis?

Seshagiri Rao: See, the way the iron ore prices in India have moved up when international prices of iron ore went up, so if $170 prices go up further in the international markets, then we can expect further cost pressures that may emanate from iron ore. But at the same time, what is interesting here is more iron ore availability we are seeing in the marketplace. One is increase in iron ore production within Orissa itself, either from captive mines or otherwise; number two, government of India also permitted some of the mines which were auctioned and not became operational asking OMC to operate those mines through MDO, so some of those mines will come in. Similarly, the mines where it is captive, they're allowed to sell in the market up to 50% and SAIL has been asked to auction the iron ore. So a lot of steps have been taken to ease the current shortage of iron ore. So that may cool down the increase in iron ore prices in the domestic market. Then as regards to the coking coal is concerned, the impact part of it may come in the second half of March or early April. Otherwise, we have already booked for the quarter. So the increase in coking coal prices will get reflected in the next quarter.

Moderator: The next question is from the line of Amit Murarka from Motilal Oswal Financial Services.

Amit Murarka: My first question is around the contracts or the contracted volumes. So the auto contracts, I believe, are for 6-monthly basis and they were contracted at a much lower price. So as you said that, generally, price doesn't move during the contract. But just to understand, given that the price hikes have been so sharp, is there any scope and also given that there is raw material inflation also like iron ore and all, so is there any scope for renegotiation during this period or it's a watertight contract?

Jayant Acharya: So your automotive question, basically, automotive usually is on a half-yearly kind of pricing contract. This time, the prices were finalized again in the month of October, where the price movements for the previous periods were considered. Since the movement of steel prices globally has happened mostly after that, there is a substantial difference which has come between the spot prices and the automotive prices, as you also rightly pointed out. So while the automotive quantity requirements have gone up from all our auto majors, our customers, and our supplies also we have increased to them in October-December although they were on a contract at lower price. We have made requests to them to basically for this period break the increase which would be applicable from 1st April in two parts: one from 1st January and one from 1st April so that the load does not come on any of us in one go. If you recall, during the April-September period also when the pandemic was there, while there was a price increase admissible to the steel majors, in view of the COVID situation and the request by auto majors, we had also deferred the increase for the period of April to September. So in view of the current exigencies of gap which has come in, we have made a request with the auto majors to look at it in two parts, one from 1st Jan and the balance from 1st April.

Amit Murarka: And just one clarification on the BPSL acquisition. So I think there is still some confusion around whether the BPSL EBITDA that has been earned since a resolution happened, would it come to JSW or it is still gray area which is not yet resolved?

Seshagiri Rao: No, as far as our understanding is concerned, we submitted resolution plan, which is approved by the COC and by NCLT and NCLAT as a going concern. So as a going concern, every one of us understand what it means about EBITDA to whom to whom it must come. Anyway, it won't come to JSW Steel, it will remain with BPSL. Then only some litigations are there in the Supreme Court, saying that this EBITDA should belong to lenders. But there is already Supreme Court adjudication in the matter of Essar Steel that the distribution of EBITDA that accrues during the CIRP period is governed by the terms of the process document. So based on that and precedents, which has happened so far, I don't find any clause in the process document of that nature, which specifies that it belongs to lender. But the ligation is still pending. So we must wait for that. But as on date, yes, there is a litigation on this item.

Amit Murarka: And just quickly also in the top line, what would be the kind of iron ore sales that are booked in the top line? Could you quantify that?

Seshagiri Rao: This amount approximately 550 crores.

Amit Murarka: And EBITDA also, if you could?

Seshagiri Rao: EBITDA, we'll not be able to do that because it's almost equal to the market price because IBM price and market price is same. So we sold at the market price.

Moderator: The next question is from the line of Sumangal Nevatia from Kotak Securities.

Sumangal Nevatia: First question is to Mr. Acharya with respect to steel prices. So is it possible to share what could be the exit price of 3Q versus the average of 3Q and also some color on the recent price trends on the ground given the correction in the secondary market what we've seen in the last week and also in case there are any demand pushback at such high prices, which we are sensing from consumers?

Jayant Acharya: So for absolute numbers, we usually don't discuss, as you're aware. So basically two things here important is that prima facie steel prices are global prices and whatever is happening in India is, by and large, reflecting that. There are still maybe some gaps in flat products because flat is more led by global prices. There are still some gaps in the domestic market in some products vis-à-vis international. That means international prices are still higher in some of the flat product categories. As far as longs is concerned, I think the long prices here is again a factor of the availability. 35% of the long products by and large is from the primary producers and 65% comes from the secondary producers. There was a gap in supplies of iron ore in the first 6 to 7 months, which has created a supply shortage as far as from the secondary sector. And that has created some pressure in the supply demand. So I think we have seen iron ore quantities increasing from December. So we are seeing that reflected in the market as far as long products is concerned. So you are seeing that long product prices again also went up in line, but there has been some moderation in the last 1 or 2 weeks based on improved availability from the secondary sector, which is okay. So I think from a perspective of price pattern, its fine, but the demand overall continues to be strong. We see the demand in Quarter 4 driven by infrastructure, automotive, consumer durables, retail quite strong and in the next year as well, we are seeing a strong economic growth, also a strong steel growth. So therefore, from a demand perspective, it should be good. Prices may be range bound, depending on how the movement of supply, raw material and global steel prices are.

Sumangal Nevatia: And then continuing these prices, there has been some comment by government officials on the higher steel prices, mainly on the back of complaints by a few segments of consumers. So do we foresee any risk of any policy action in terms of a reduction in import duty or restriction in some sort of exports being imposed by the government?

Jayant Acharya: So from a perspective of availability, the comment which was there was primarily, as I explained in the long products, where the supply from the secondary sector was the main issue, which was on account of iron ore. Once that iron ore production is improving, you are seeing availability from secondary sector in long products improving. And that will automatically take care of the supply demand and therefore, the pricing. As far as movement of price and any action is concerned, I don't anticipate. I don't see any of those coming. You will also see that the steel is a cyclical industry. In the first quarter of this year, the steel industry went through a loss cumulative globally as well as in India. At this point of time, it is going through a correction cycle. But prices, is volatile and it will continue to be cyclical. So I do not anticipate any action based on 1-2 months price differences in the market.

Moderator: The next question is from the line of Ritesh Shah from Investec.

Ritesh Shah: My first question is, if you could provide some light on ACCIL, what is the effective EV/EBITDA on a trailing basis? Any accumulated losses over here, synergies with JSW and capacity volumes? That's the first question. Secondly, any time lines on JSW Ispat Specialty Products, by when will be fold into JSW Steel going forward and lastly, if possible, what would our take be on the mining regulations, specifically national mineral index and there has also been a talk about the double taxation issue being taken up, how it can help us? Three questions from my side.

Seshagiri Rao: Asian Color carry forward losses are concerned, the approval when it was accorded by NCLT, they did not permit carry forward losses for ACCIL, even though it was clearly mentioned in the resolution plan. So we went for an appeal to the NCLAT. It is pending. So we are awaiting the outcome from the NCLAT. A similar instance also happened in the case of Vallabh Industries Limited. We went to NCLAT and got a favorable judgment from there. So hopefully, in ACCIL, we should get favorable judgment from NCLAT. Assuming it will happen, the accumulated losses (tax impact) will be close to 1,200 crores to 1,300 crores. So the accumulated losses will come to us in case it is allowed. The second point which you raised about the performance of ACCIL, there is some litigation which is pending by one bidder who came in late and then he is making a lot of claims. So we don't want to give at this stage too many details about ACCIL unless that litigation is resolved.

Then as regards to Monnet Ispat is concerned, the company just turned around. Eventually, what we are subject to necessary approvals, once turnaround is complete, when debt to EBITDA and all is favorable, then at a level which is okay for JSW Steel, at that time we initiate. Otherwise, soon, we are not looking at bringing Monnet into fold of JSW Steel. But medium term to long term, yes.

Mining regulations and taxes, there are certain amendments that are being contemplated. They're yet to come. Only we have seen that cabinet has approved. So we must see the details when it is approved by the parliament, then we'll be able to comment on that.

Moderator: The next question is from the line of Sanjay Parekh from Nippon India Asset Management.

Sanjay Parekh: I have two questions. One is, given the impact on demand at higher prices; do you think it's having an impact on the demand, particularly on the long side? And the second question is, coking coal has been quite benign this time in the cycle. It's recently gone up, but by and large, it's quite benign. So of course, that's to do with the stress between Australia and China. But what will be your perspective on this? What would be your reading in terms of coking coal prices if you can guide?

Jayant Acharya: So coking coal prices have basically remained at a level of $100 FOB for some time, primarily post China imposing a ban on Australian coal when I say FOB $100 ex-Australia. However, after the pickup in production in rest of the world in October-November-December from the blast furnace BOF route, we have seen high-grade Australian coking coal demand coming up again and the price in the recent weeks have shown an increase. China continues to buy coking coal from Canada and U.S. at a premium. So there would be a tendency for coking coal to have an upward bias due to increase in production, which we see from rest of the world coming in. As far as the impact of price on demand, which you mentioned, the second question. As far as flat steel is concerned, because you are seeing this probably from a length of 1 or 2 months, from a longer perspective, if we were to see from a medium term, I think the demand is much stronger because combination of pent-up demand coming in; a sharp improvement in the business sentiment on reduced cases, especially in India and the vaccination program starting; infrastructure push by the government across various projects which they have announced and continuing good demand from the automotive side. So we expect the demand in general to be quite robust in the next year as well. As a matter of fact, we probably are looking at 10% to 12% growth as far as steel demand is concerned in the next financial year also. So from a medium perspective, if you look at it, on a weak 2020, I think the demand going forward will be quite robust.

Moderator: The next question is from the line of Bhavin Chheda from Enam Holdings.

Bhavin Chheda: What was the number of the revenue and capital acceptances at the end of December?

Seshagiri Rao: Revenue was $947 million, and CAPEX is $491 million.

Bhavin Chheda: Capital is $491 million and regarding the overseas subsidiary, the losses have reduced, I think, and you've mentioned the operating cost has gone down. So are we at breakeven now mainly in the U.S., Italy and the plate mill, pipe mill or we still have some losses going into Quarter 4?

Seshagiri Rao: No, no, there are losses, operating losses are there. The way I mentioned is operating losses are reduced, but there are one-off item provisions are there. So if I add those provisions which are made in this quarter, the total loss comes up to 208 crores operating loss, all overseas operations together. If I take out one-off item, the last operating loss was 124 crores. So in the Q4 also, these losses will continue to be there. The actual operations in the U.S., both Baytown and Mingo will start in the month of March 2021. So we must see for the next financial year to make these operations at the operational level profitable.

Moderator: The next question is from the line of Gaurav Rateria from Morgan Stanley.

Gaurav Rateria: Firstly, you explained the whole dynamics of demand supply on long product. So with improved availability of iron ore and the secondary production going up, do you think that there is a cost element in the pricing and that can come up and the prices can settle down lower than current level?

Jayant Acharya: As I was explaining, I would look at the long product demand on a medium-term basis and with infrastructure projects sharply improving in this coming year and this quarter as well; I do not think that the demand will in any way be impacted. Prices would be range bound, I think if the secondary sector operates in a different segment and the primary sector operates in a different segment. So they will continue to coexist. The prices may be range bound. If the availability from the secondary sector improves because of iron ore, the supply from there may increase in certain segments, which may moderate the prices, as has happened in the last 1 or 2 weeks, which is on TMT. But if you look at other long products, specifically wire rods or alloy steel, we do not see any impact.

Gaurav Rateria: Secondly, on the new mining regulation, there is some provision, which mentions that independence to decide premium over and above what royalties are being paid at the time of the renewal. Do you think this will have an impact on fundamental cost structure, cost curve of even the low-cost miners in the country, annual cost probably will continue to inch up on this? And lastly, a data point on coking coal cost reduction versus last quarter.

Seshagiri Rao: As I mentioned to you, the mining regulation amendment, which is approved by cabinet, finally, it must be approved by the parliament. One or two points which we picked up from there is, there is a double taxation, royalty on royalty. Similarly, there are certain amendments relating to stamp duties, rationalization of stamp duties. Like that, there are certain issues. Today, what we are suffering is royalty on royalty. So this is one area where we are expecting some amendments, which will come in. So we must see the fine print what it contains.

Gaurav Rateria: Data point on coking coal cost reduction this quarter versus last quarter?

Seshagiri Rao: Around $6.

Moderator: The next question is from the line of Abhijit Mitra from ICICI Securities.

Abhijit Mitra: My first question is on iron ore. As far as Orissa mines are concerned, present it is 25 million tonnes and there were talks of increasing this easily to 35 million tonnes. So what's the sort of timeline for this increase? And what kind of CAPEX, if any, you already have sort of kept towards it?

Seshagiri Rao: The operations are run based on MDO basis. So there is no CAPEX involved, but the existing approvals are valid for 2 years. Within 2 years, if we want to increase the capacity or renew the existing approvals, we must apply within 4 months from the date of signing of the age agreement, which we've already done. So anything that can happen only at the end of 2 years. By the time we get the clearances and make it operational, I don't expect any big CAPEX there as it is operated through MDO.

Abhijit Mitra: And what's the thought process, are you also planning for a separate sort of steel plant to sort of augment this as in this has been done kept in mind of a new investment in Orissa? Is that the thought process?

Seshagiri Rao: That is a long-term plan, which we've already announced, that we would like to set up a greenfield steel plant in Orissa. But right now, the focus is on completing the brownfield at the locations where we already started. So we'd like to complete that, then we look at the greenfield, not in the immediate future.

Abhijit Mitra: But further expansion in Vijayanagar should proceed that CAPEX in Orissa, right?

Seshagiri Rao: Brownfield, whatever possible is there, we would like to focus on brownfield, where it's cheaper and quicker. Thereafter, we look at greenfield.

Abhijit Mitra: And, one last question. Out of this 35 million tonnes, what's the plan for external sales? I mean do you plan to sell 50% of it or sort of optimize the mix thereby?

Seshagiri Rao: No, our capacity at Dolvi is coming into production in the next year. So with that, our iron ore requirements are going up. So we will just review and then see whether any surplus is available for sale in the market. If it is required, we will sell that.

Moderator: The next question is from the line of Indrajit Agarwal from CLSA.

Indrajit Agarwal: A couple of questions. One, after all our capacities are commissioned, whatever is in pipeline right now, what could be our value-added capacity or value-added sales as a percentage of total?

Seshagiri Rao: Value-added capacities total will be 12 million tonnes, including Asian Color, plus expansions, which are going on right now. Once all are completed, then it will be 12 million tonnes.

Indrajit Agarwal: So roughly about 50% of our total steel capacity. And secondly, what is your sense on our steel inventory in India at various levels, both at mill level and at trader level? Do you think whatever the inventory draining that has happened in the past 6-9 months, has that been refilled or there's still some scope of inventory getting refilled to the channel?

Jayant Acharya: So the inventory, if you look at the equation of demand, production, imports, exports, we are seeing that in the 9 months inventory in India has gone down by 3.2 million tonnes. In the last quarter alone, we are seeing an inventory reduction of 1.3 million tonnes. So the supply chain, I think the inventory reduction has taken place substantially. So the restocking demand would probably sustain in some of the products for this quarter also. And thereafter the supply chain will be able to come back to normal levels.

Indrajit Agarwal: Is there any logistics issue that you're facing in iron ore anymore or most of that is sorted right now?

Seshagiri Rao: It's not possible to sort out everything. But today, while we are more comfortable than last quarter is that we have two sidings. One siding, we own as a part of the mine. The second, we have an arrangement. With that, we can dispatch more iron ore. Otherwise still the Orissa roads and transportation to the port, the availability of rigs remain a constraint, which we have to manage on a daily basis and the government of India's latest announcement that the domestic movement of iron ore will have priority over exports is a great welcome step. And on the siding side, we'll get priority. So these things are good for easing of constraints that are there in the movement of iron ore. But as on date, constraints are there, but we must manage.

Moderator: We take the last question from Satyajeet Jain from Ambit Capital.

Satyajeet Jain: Just a couple of questions. One on the iron ore, if you're producing at 2 million ton monthly run rate, in this quarter till Dolvi ramps up, would you be looking at stockpiling some for Dolvi or is it going to be mainly in merchant sales, whatever extra you're producing till Dolvi expansion comes on?

Seshagiri Rao: No, today, there is a shortage of iron ore even in Karnataka because Donimalai has still not started. So part of the iron ore, we are supplying to our Vijayanagar plant and to Dolvi, plus as you rightly said, we must now stock up for the expansion of Dolvi plant. So altogether, majority of the iron ore that is produced will get shipped either to Salem or Dolvi or Vijayanagar. If any surplus is there, we are selling in the market, either to Monnet or other companies.

Satyajeet Jain: And secondly, thank you for all the details on the ESG front. On the carbon emissions, any more concrete details as to how you plan to achieve less than 2 ton of CO2? And on the specific energy, is there a possibility that the target that we have of 5.91, I think, is there a possibility of that being more aggressive? That still seems somewhat high compared to what some of the other peer's report.

Seshagiri Rao: This is we have benchmarked with what we were in 2005 and what we would be in 2030. So as you rightly said, energy intensity is an ongoing exercise, this is the goal. It doesn't mean that we don't improve beyond 5.91. Similarly, CO2 emission side, we can give a lot of details from 3.39 what we are today and how we can become to going forward by 2030, if not more. So we have the details either solid waste utilization or water or waste usage or air pollution, all the areas we have the details, which we can provide.

Moderator: That was the last question. I now hand the conference over to the management for closing comments.

Seshagiri Rao: We are at the fag-end of commissioning several projects that are ongoing in various locations. This will double our downstream capacity and increase our upstream capacity by 35% to 40%. We are coming up with this incremental capacity when there is a shortage of supply and the demand for steel is expected to be robust for next year. On a total base of around 91 million, 92 million ton of steel consumption in this financial year is expected to grow, if not more than 10%, at least by 10% in the next year. So then JSW Steel is in a very good position with incremental capacity and also very high-end value-added steel products and very high integration in terms of iron ore from the captive mines and a lot of cost saving projects like pellet plant, coke oven plant, power plants getting commissioned in this year. So there is a great future in my view for JSW going forward. Thank you.

Moderator: Thank you. On behalf of IIFL Capital Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.