"JSW Steel Limited Q1 FY-21 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the JSW Steel Limited Q1 FY21 Earnings Conference Call hosted by Motilal Oswal Financial Services 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. 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. Amit Murarka from Motilal Oswal Financial Services Limited. Thank you and over to you sir.

Amit Murarka: Thanks Faizan. Good evening everyone. On behalf of Motilal Oswal Financial Services I welcome you all to this call. I will now hand over the call to Pritesh Vinay, who is the Vice President, Corporate Finance and Group Investor Relations at JSW Steel. Over to you Pritesh.

Pritesh Vinay: Thank you very much Amit. Good evening ladies and gentlemen. It is my pleasure to welcome all of you on the First Quarter of Fiscal 2021 Results Earnings call of JSW Steel. We have with us today the management team of JSW Steel represented by Mr. Seshagiri Rao – Joint Managing Director and Group CFO, Mr. Jayant Acharya – Director, Commercial and Marketing, and Mr. Rajeev Pai – CFO. We will start with a few minutes of opening remarks by Mr. Rao, and we can then open the floor for Q&A. With that, over to Mr. Rao!

Seshagiri Rao: Good evening to everybody. I invite you all for the briefing of our Q1 FY21 financial performance of the company. The COVID19 pandemic outbreak has a very profound impact on the companies and also on people and on the entire world. But the impact is not uniform across the regions; across the companies it is different. For instance even in India if we see that the impact is much deeper in the case of urban areas and also in the South and West of India relative to rural India or North and East of India. This is one observation which we have when we see the demand recovery in the region. After the lockdown in March 2020 when it was opened up, the kind of challenges which continued for some time either by way of supply disruptions, lack of availability of labor, lack of credit flow or discretionary demand. These are some of the challenges which we have seen in the quarter. After we tried to find solutions to these issues till the continuity of the production and operations because the spread of COVID19 impacting the people around our factories and also some of the employees, this also has impacted the overall performance in the month of June, 2020 at our Vijayanagar plant.

During this period if I look at the global steel production side there is a huge adjustment in the supply-side we are seeing other than China. The numbers which are being released by World Steel Association, the production adjustment is over 14% other than China. That is quite substantial adjustment under supply and at the same time the increase in iron ore prices plus supply-side adjustments and very-very robust demand in China, particularly their exports are coming down, their imports are growing, their production is increasing. This all shows a very robust recovery in China and also improvement in prices in China. With that China is able to absorb some of the steel production that is available in other parts of the world particularly India. So India is concerned between April to June the demand has fallen around 55% and the production also has fallen by 40%-43%. But in spite of fall in demand and also adjustment in the supply-side there is surplus production in India due to which there is a huge amount of export increase that has happened in the quarter, so 5.5 million tonnes of steel which was exported from India during the last quarter. But in these exports what is very relevant to see is that 41% of the exports from India are semi-finished, Slabs, Billets that is the kind of products which were exported. So it is also interesting to see that a majority of the semi-finished products reached China that means their infrastructure demand not only absorbing their increase in crude steel production and the resultant finished steel, they are importing semis and converting into finished goods and using for their infrastructure built-up. So therefore it is a great opportunity for India to fill up these gaps which are there in terms of increasing our exports in the last quarter. What is also interesting in the last quarter in spite of fall in demand in the overall quarter if I compare the opening stock in the system as on 1st of April, 2020 versus 30th June, 2020 the inventories have come down.

So this is the context in which JSW Steel has performed in the last quarter. Actually the time available for showing our performance actually was two months, so this results I should say it's for two months even though it is for the quarter. So steel production was 2.96 million tonnes and the consolidated sales were 2.79 million tonnes. 57% of our total consolidated sales were exported, 1.58 million tonnes were our sales but when the country as a whole exported 41% of the exports semis whereas JSW Steel has exported different segments of products. Our semis are only in the range of around 20%. The net sale realizations sequentially have fallen by 12% which is around Rs. 4800 per ton on a blended basis. Iron ore prices were lowered in India so that benefit has come in the last quarter.

Over and above that whatever cost initiatives we have taken in terms of natural gas price reduction are ferro-alloys, are scrap. This neutralized to some extent the increase in cost of coal. Coal prices were higher in the last quarter by $3-$4 per ton, so after neutralizing that impact net-net the cost of production was lower sequentially by 4%. So the EBITDA per ton was Rs. 5102 on a standalone basis, showing an EBITDA margin of 13.8% in the last quarter.

Our Indian subsidiaries together contributed 168 crores, Coated 28 crores, Amba River Coke 118 crores, JSW Industrial Gases 6 crores, VTPL 9 crores, altogether is around Rs. 168 crores. Even though it is lower either sequentially or compared to last year. The EBITDA on a consolidated basis is 1341 crores and the standalone basis is Rs 1429 crores. The consolidated EBITDA was lower when compared to the standalone EBITDA but the losses from overseas either US plate and pipe or Ohio or Italy altogether Rs 247 crores for the cumulative losses in the quarter from overseas operations. After netting out these overseas losses and the positive EBITDA that is coming from Indian subsidiaries the consolidated EBITDA was 1341 crores which is Rs. 4806 per ton. After netting out interest and depreciation the profit after tax was reported as 582 crores. In the last quarter we have covered our full interest even though the operation is effectively for two months, we recovered full interest and part of the depreciation.

If the impact of COVID at our Vijayanagar operations are not there in the month of June 2020, the result would have been much better.

During this quarter we have started production in our Odisha mines from 1st July, so during this quarter we have used this period to finalize MDOs (Mine Development Operators). We also finalized the transport. We have signed all the agreements. We have made the payments. With all that we could operationalize all the four mines construction on 1st of July, 2020 and we have a land to produce 1.2 million tonnes in the month of July itself. The dispatches also have commenced from these mines in Odisha. We feel it is a game changer by having captive source of iron ore from Odisha to meet our requirements for producing steel.

The debt of the company as on 30th June has gone up by Rs 1,054 crores when compared it to 31st March it is 54,527 crores, majorly due to outflow for operationalizing Odisha mine. Here in addition to incurring capital expenditure of Rs 817 crores towards MPV payments, towards stamp duty, towards other charges. The company has also paid total 1290 crores as upfront fees for these four mines together. This 1209 crores will be adjusted against the future premium payable. That means if we're getting either knows from these mines during this period there is no additional amount which we need to pay to the government. So iron ore will be available to us only by incurring the cost of mining and also transportation. So what we did to pay as a premium is already paid almost for the entire year, so this is adjustable premium. The Net debt to equity of the company is 1.54, Net debt to EBITDA was 5.74x.

We have given the guidance of 16 million tonnes for the year production and 15 million tonnes of sales, so whatever we have done in the first quarter 2.96 million tonnes of production and 2.79 million tonnes of sales. So I want to assure you that we will be able to meet this guidance in the balance nine months period. Now Vijayanagar has become normal so their operations are again inching up close to 90% capacity utilization. So this quarter I think we will do well relative to last quarter in terms of production and sales volume.

Over and above the improving demand in the domestic market particularly from solar packaging appliances, infrastructure and construction activities we are also finding global supply chain realignment which we feel is a great opportunity. So we are working very closely with the engineering industry, so there is huge amount of engineering exports from India and also capital good industry and automotive component industry to supply steel to them to enable them to export or import substitution we are working very-very closely with these industries.

As regards our projects under implementation I'm very happy to say that there is an improvement in terms of availability of labor. At the last time when we announced our results for March '20 in the month of may be said the number of workers at our project site in Dolvi has come down around 3,000 from 15,000. So during this period we have seen significant improvement, now it is almost close to 4,900 people are working, so there is 1900 people additionally came in. We are seeing every day some people coming back and joining, so we feel again we can restart and ramp up the project work both at Dolvi and Vijayanagar so we are very-very closely watching the developments and looking at completing these projects as guided in this financial year.

The acquisition of BPSL and Asian Color there are certain developments. In the case of Bhushan Power and Steel, the case is expected to come up for hearing in the Supreme Court, so the Supreme Court hearing once it is decided we will go ahead and complete the acquisition of BPSL. As far as Asian Colour is concerned it is yet to be approved, the resolution plan by NCLT and I understand there is some intervention application by one of the private equity funds from the USA saying that they would like to improve the offer. So this case is coming up for hearing on Monday, so we will watch developments in this regard.

With this I seek any clarifications which you need

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Indrajit Agarwal from CLSA.

Indrajit Agarwal: First on the guidance, so our ask rate for the last nine months is about 8% growth YOY in terms of volume, so how to see the proportion of exports panning out in the last nine months versus what we have done in this quarter and what it has been in the last year?

Jayant Acharya: So exports we will be taking the decision with respect to the demand how it gradually imposing the domestic market but as we see today the domestic market demand has been improving month on month, May to June, June to July, so we do expect the gradual improvement in the demand in India with that the export would moderate directionally.

Indrajit Agarwal: The second question is on the current quarter's input cost mainly on iron ore and coking coal, so have we fructified on the benefit of iron ore cost reduction that we have seen earlier or there is still some more benefit to come in this quarter and also similarly for coking coal what do you expect in this quarter and the subsequent quarter?

Jayant Acharya: The coking coal last time we had guided that Quarter 4 in Janaury-March and April-June would be flattish. I think we had $3-$4 extra in Quarter 1, April-June 2020 as against Quarter 4, January-March '20. We expect July-September to be down by $20-$25.

Indrajit Agarwal: And iron ore?

Seshagiri Rao: Iron ore whatever price increases that have happened in this quarter Rs. 200 price has been hiked by NMDC, so that impact will definitely come for part of the quarter.

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

Sumangal Nevatia: The first question is with respect to the steel price trend, if you could share some color as to what was the average price, exit price and how are the price is shaping up in July?

Jayant Acharya: In the last two months that is May and June the prices in the domestic market decline in line with what happened internationally but though with a lag, so if you were to see international prices in April had come down let's say from generally it was $490 odd FOB China and that came down to about $400 in April and in India also the prices came down post April. April was virtually a washout as you are aware because of the lockdown, so price impact started falling out in May and June. But in the month of July we have seen a modest increase in the Indian market and prices in-line with what has increased in the international market. I think part of that is paid out. Prices as we speak today FOB Shanghai they are $470 which was $400 odd FOB in April. So we are looking at the price correction as the demand in the world is picking up and situations are normalizing. We do expect that there would be a price correction upwards in the Indian market in the month of August as we see and we are monitoring that and we will be able to decide in the next few days as to how much that would be.

Sumangal Nevatia: With respect to the auto contracts we read that it is still under negotiations, so is it still status quo or there is some progress there?

Jayant Acharya: No, so auto I think as all of you are aware the auto industry has gone through a rough phase and therefore the volume requirements by the auto industry in the last quarter was very minimum. The production dropped by 79%, so a discussion on prices at that point of time was not appropriate. I think the discussions are now on, I would consider that April-June by and large you can say that the auto prices would have rolled over but as far as July-September and beyond is concerned we are discussing with the auto majors and we will take a view.

Sumangal Nevatia: Second question is with respect to iron ore, now if we look at total annual requirement would be somewhere between 25 to 30 million tonnes, so if we could break up what are the sourcing what we expect in FY21 with respect to captive Karnataka merchant, Odisha captive and what is remaining which we will be buying from outside?

Seshagiri Rao: At Vijayanagar the total requirement is around 21 to 22 million tonnes, out of that we expect our captive on commissioning of other three more mines which we got that also expected to be commissioned. We are planning to sign the Mine Development Agreement with the Karnataka Government if not in this month at least next month, so these three mines also we are planning to get operationalize in this quarter. So with that from these nine mines which we have, six already operational, three we wanted to get it operationalize, together we are expecting between 7 to 8 million tonnes of captive iron ore out of 22 million tonnes. So balance we will source based on availability within Karnataka otherwise part of it may come from our mines from Odisha. That is how we are planning. But a small quantity may be around maybe around 2 million tonnes may come from Odisha in case there is a problem in availability within Karnataka. That is how we are seeing as far as Karnataka sourcing is concerned. If I see the other plants either Dolvi or Salem, their entire requirement can be met from our Odisha mines. As I mentioned to you last time the Environmental Clearance that is available for all the four minds together is 29 million tonnes, out of these 29 million tonnes if we see the average production in the last 2 years was 21.65 million tonnes, 80% of that is 17.32 million tonnes in the financial year. That is our obligation under the agreements which we signed. So therefore the production could be in that range from these mines, so this is enough to meet all our requirements both at Dolvi and also at Salem. That's how we are planning to sort of the iron ore requirement for these three units.

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

Pinakin Parekh: My first question is just how should we look at the blended ASPs per ton from 1Q to second to third Q because domestic prices will increase, they have seen an increase in July, they should increase in August. As you mentioned the regional HRC export prices have increased and JSW has a meaningful export component. Also one would assume that if domestic sales increase and export share on the margin comes up, domestic sale volume increase which have higher blended ASPs, so given where 1Q was, how should we see 2Q and 3Q realizations trending? Can it be Rs. 3,000 to 4,000 per ton versus where 1Q was based on the combination of these factors?

Jayant Acharya: So I think one thing which I would like to highlight is that the exports in the last quarter were the maximum in the month of May, April anyway the sales were very low overall, May was maximum for exports and it was moderated in the month of June. So we went down from May to June as the domestic demand in June picked up and we see the export from June to July also moderating somewhat. So therefore I would say that as the domestic demand is picking up we are also taking actions to see that we are balanced within our domestic and export volumes. So there is a mix change which is going to happen, one is that last quarter we had to do more of exports and we did more of semis and our normal level of semis, both will undergo some changes as we go into the quarter July-September. International prices we discussed I think international prices have gone up and domestic we have seen modest increases and we expect that in the month of August also there will be a price increase. The other thing which you need to consider is that the inventories have come down as your India production versus India sales would have given you any indication that the exports has actually evacuated stocks imports have gone down. So to that extent the inventory on ground in India is also gone down. So we are quite hopeful that directionally July-September both from a mix point of view and a price point of view it will be better. We would not like to put a number on the table as we are still evaluating as to what the options are with respect to the price increase in August.

Pinakin Parekh: My second question is on Bhushan, now Mr. Rao you mentioned that there is a Supreme Court ruling and once that is done the company will complete the acquisition. So just regarding clarity on that given that there has been a meaningful timeline between when the proposal was accepted to the final completion, just trying to understand what will happen to the cash which is residing on Bhushan Power? Would JSW Steel have access to all the cash that has been earned since the proposal was accepted and at this point of time should we continue to assume that Bhushan Power will not be consolidated into JSW's book?

Seshagiri Rao: As far as the sharing of EBITDA accruals during the CIRP period as per the judgment of Supreme Court in the case of Essar is governed by the RFQ, whatever they have mentioned in the RFQ I think that guides who has to get this amount. So when this EBITDA was litigated to whom it belongs to and NCLAT judgment in the case of Bhushan Power and Steel it announced that it belongs to lenders, we went for an appeal. Then NCLAT has clearly mentioned in their judgment based on Supreme Court judgment in the case of Essar, the EBITDA sharing is governed by the RFQ whatever is mentioned in that that is how it has to be shared. Our understanding is as per RFQ and as per our resolution plan it should belong to us, to us means to the resolution applicant.

Pinakin Parekh: Just to clarify the entire EBITDA and this is not contested by the lenders for this will still require underground of Supreme Court hearing?

Seshagiri Rao: Instead of lenders contesting I think it is the first we'll promoters are contesting on this issue.

Pinakin Parekh: And on the consolidation post the ruling I mean we should still expect it to remain off JSW's books, right?

Seshagiri Rao: Yeah, it is the equity method of consolidation. This we have clarified earlier, it will continue to be as and when the acquisition is complete.

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

Amit Murarka: My question is around Dolvi, so when let's say by 4Q we are done with the Dolvi expansion but given the domestic demand environment how do you think the ramp-up could be in that asset or will we have to resort to higher exports once again?

Jayant Acharya: Dolvi actually expansions are planned in line with our expansions which are happening in our downstream facilities, so JSW coated is also expanding its operation by almost 2 million tonnes, so out of the production of Dolvi 5 million tonnes, our internal consumption itself would account for 2 million tonnes. Capacities of the downstream are coming in place in this financial year itself in line with the Dolvi coming up in the last quarter. The balance quantities would get one is the domestic demand improvement which would happen, second is that our downstream operation in Vijayanagar if you recall we had said that our CRM is undergoing capacity modernization and expansion, so about a million tonnes extra of Hot Rolled coils will going to her downstream operations at Vijayanagar which will make it about 1 million tonnes of material from there which would be shifted to Dolvi for execution to the market where whether it is domestic or exports. And there will be some additional domestic market and export market combination which will work for the rest of 2 million. So that way balance is quite stable.

Amit Murarka: On the overseas assets you had earlier laid out a plan of turning a breakeven in a few quarters but what is a revised estimate now?

Seshagiri Rao: The losses are steadily coming down, now in the case of US plate and pipe mill the Phase 1 modifications are completed. But unfortunately the steel prices in USA have come down. In fact it is first we are seeing for the last several years where US steel prices are lower than China. In that context right now there is a depressed market conditions as far as the US economy recovery is concerned, so we have to still watch how the economy will shape up particularly in the context of COVID19 impact. At least US plate and pipe mill because of this modernization completion of Phase 1 we expect that the losses will substantially reduce by third quarter that is the next quarter it should positively contribute to the EBITDA. That is how we are seeing plate and pipe mill. As far as Ohio is concerned we have evaluated in the context of falling prices and the fall in demand in USA. If we continue the operations at it exist today we will be losing more money, particularly when we are planning to revamp the electric arc furnace. This electric arc furnace revamping gets completed in the last quarter of this financial year, so if we can take this shut down during this period we will be able to reduce our losses in Ohio. So once the EAF revamping is complete then we would like to restart operations. Keeping that in view we have taken shut down of our Ohio plant. With that you will find from these two units the losses will come down and from Q4 onwards things will become much better in terms of overall operating EBITDA contribution is concerned for these two operations. Similarly, in our operations at Italy is concerned, there also we're focusing on the Rail Mill and the Grinding Balls, not on the wire rod and bar mill because there the contributions are not looking better. So that is why we are not operating those two mills and we are focusing to optimize and maximize the production from these two units which are contributing positively. There also losses would come down in this quarter and in the next two quarters it will contribute positively from Italy.

Moderator: The next question is from the line of Anuj Singla from Bank of America.

Anuj Singla: Mr. Acharya first question for you, in terms of the landed cost of imports could you guide us where the domestic prices are and do you see a probability of the discount to the domestic prices converging towards the end of the year given the domestic demand outlook that you have?

Jayant Acharya: So $489 is the antidumping price as you are aware which is prevalent into India. Now based on that as the exchange rate broadly near the ports or little distance into the hinterland the prices landed from imports would be anywhere between Rs 38,250 to maybe RS 39,500 depending on the freight and cost from the port. So that is the imported landed prices today. The domestic prices are at a discount to the international prices today, so therefore the domestic prices would certainly be going up and directionally yes, by when and how much as I said in my earlier clarification that's something which we are working on and we will decide how much increases we should be able to take for the month of August.

Anuj Singla: Second question we had mentioned in the last conference call that the smaller players were struggling because of the issues related to labor, liquidity so we were able to take market share away from them given the domestic demand environment was weak but still that supported our volumes. Does that still continue or has that thing changed due to the higher prices in the domestic market?

Jayant Acharya: I didn't understand that question exactly Anuj, if you can just…

Anuj Singla: These were the smaller players, the unorganized industry, so they were struggling because of that there were supply-side issues some major players would actually sell more in the domestic market because of the supply reduction from the smaller player. So I am worried about the supply-side are ramping up on the unorganized sector side as well. Is that a risk to the pricing when we look forward to pricing recovery in the second-half of the year?

Jayant Acharya: So you have to differentiate between Flats and Longs, so as far as Flats is concerned that's anyway I think primary producers are the main players in the Flat product space, so there I do not see much of ramp-up from the smaller unorganized players, they are few. Also that having said in the Long steel where the impact was more in terms of one is a supply disruption because of the labor and other issues second is because again because of the labor and because of the lockdowns the construction activity in specially the metros and urban areas were impacted. But now the supply side while they have picked up in the last few days in the Long products also we have seen Billet prices moving up, we have seen Sponge Iron prices moving up, we have seen Rebar prices moving up in the last two days. So while the supply side is also corrected a bit with respect to on the positive side, some of the unorganized players on TMT have started producing somewhat more. But the demand side has also picked up with the opening of lockdowns and the prices therefore have corrected upwards. So I think from that perspective Flat to conclude I don't see much of an issue from the unorganized, the Longs yes they have picked up somewhat but also the demand has opened up vis-à-vis what it was earlier. Prices have picked up, so we will watch this space going forward. July-September keep in mind also that for Longs construction activity little bit disruptions are there in areas because of the rains. But this time because of the pent-up demand of completion of infrastructure construction activities which could not be done in April-June, some of the demand of that is now getting pushed into this quarter where people would need to complete before major part of the monsoon hit them.

Anuj Singla: Lastly one question for Mr. Rao. Mr. Rao regarding the furnace upgrade at US operations, what is the CAPEX there and is it a part of the 9,000 crore guidance, the CAPEX guidance for the full year which you gave earlier?

Seshagiri Rao: In the US plate and pipe mill there is no CAPEX involved. Even Phase 2 we have put it on hold as I mentioned last time. Only in the case of Ohio there is a $25 million of CAPEX for completing the EAF ramp up that is not part of the 9,000 crores, we are over and above 9,000 crores.

Anuj Singla: Only 25 million is the number?

Seshagiri Rao: Correct.

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

Abhijit Mitra: My first question is on iron ore. So at the beginning of the call you did mention that 1,290 crores is upfront payment that you have paid which should suffice for majority of the premium payments for this year. So what is the kind of volume that you are looking at and what kind of accounting will be followed for this 1290 crores? Has this passed through capital line item and thereby it won't appear in the operational cost item for the next three quarters or how is this going to get accounted?

Seshagiri Rao: It is a cash flow entry. 1290 crores is advance for raw materials. Whatever amount of premium which we have to pay to the government on extraction of iron ore, I need not pay that at that time. I have paid in advance. Thereby whatever quantities which I said in a financial year 17 million tonnes is obligation which we need to do, it is only nine-months which we have to do nine-months proportionate to 17 million is what we have to mine compulsorily there. So to that amount premium we need not pay. This 1290 crores is more than enough to cover the premium payable on this quantity.

Abhijit Mitra: Secondly I had a small question on overseas subsidiary. So if you can help me just clarify or understand what is the nature of operations that we have at Periama Holdings?

Seshagiri Rao: Periama Holdings is a holding company that holds the assets of plate and pipe mill and also the coal mine.

Abhijit Mitra: And the advances that you have given is mainly related to the mining operations?

Seshagiri Rao: It is relating to US assets, either it was plate or pipe mill or for US coal operations.

Abhijit Mitra: Last question is on deduction of imports. Which are the areas where you see you can cut out the imports from China and what are the cost implications, if you can, I have one item in mind which is essentially graphite electrodes what sort of implications do you see there?

Seshagiri Rao: As far as steel industry in India importing raw materials side from China is majorly refractories and also certain portion of roles, these are the items which we do from China. So there are several alternatives available to source these items outside China, so that we are exploring.

Moderator: The next question is from the line of Vivek Ramakrishnan from DSP Mutual Fund.

Vivek Ramakrishnan: I just have one question; the company has built up a lot of scale and efficiency in India that had led to diverse the overseas assets. What strategic values does it have for the company in the long term?

Management: No lets us say as far Italy is concerned we have been supplying Billets from our Salem unit and also partly it can be done from Monet in future. So there is a big integration of supplying billets and blooms for the rail mill in Italy that way it's a good integration of our Indian operations with Italian operations. As far as the US is concerned the coal mines which are a financial hedge for us whatever coal we are getting there we are selling it there and buying in India. So it is a financial hedge. Then the US Ohio and the plate and pipe mill is concerned those two we are integrating in future thereby we will be able to get the benefit of melted and poured in USA by supplying slabs from Ohio to US plate and pipe mill. We have also invested for modernization of plate mill Phase 1 is complete. Now unfortunately this COVID-19 impacted the oil and gas industry and also the overall economy. We expect a recovery to happen if not immediately, in the next few quarters. So one is our presence in the US will give us what is happening in the steel markets in those continents. That will also help us in future to get good return on our capital employed over a period of time. So therefore it is strategically important for us to have these assets. So we are working very hard to turn around these units that is why further commitments have been made in the capital side, both in Ohio and also at plate and pipe mill.

Moderator: The next question is from the line of Amit Dixit from Edelweiss.

Amit Dixit: One is on the overall strategy with respect to Odisha mining operations. So while I understand one of the mines Jajang has got low grade ore, so is there a strategy to export from that mine? Also what would be the relative cost of iron ore supplied from Odisha versus what you're getting now?

Seshagiri Rao: No, as we have indicated last time if I calculate the weight and average of premium for all the four mines together is a 105%. That means if Rs. 100 is the market price then I have to pay 105% as a premium to the Government plus we have to incur the mining cost. Therefore on the face of the equation you find that there is an additional cost involved here. So the way we are trying to optimise as I mentioned to you we have finalized the contract for mining, MDO. We have also finalised the contract for transportation. If I look at these two aspects as on date, these costs are at least 10% lower than what it used to be generally in Odisha. So there is some savings which we are doing in the transportation cost even without going into long term what we are going to do in reducing the transportation cost, even today there is some savings related to what we used to spend. The second is once we have the mines we will be able to do every scientific mining in a manner that we'll be able to optimize our steel production. Is it in terms of producing only that type of grade of iron ore which is required by us? That will also give intangible benefits to the company. So therefore in medium term to long term it is definitely a great advantage to us and the second point is when significant portion of steel players who used to by the iron ore within Odisha from the merchant miners, today they got the mine. JSW got the mines. JSPL also not buying in the market right now because they are sourcing from the other mine. Similarly the other steel players also got mines in the auction. So therefore the steel players large steel players who are buying iron ore from merchant miners, they are not buying today. They have their capital sources of iron ore. So in this context what is going to happen to iron ore prices in India, we have to see how it will shape up in future. So overall strategically having our captive mines to feed our steel mills is very important for us. So even though we have paid higher premium in Karnataka, it is working as a great leverage for us in sourcing the iron ore for Vijayanagar plant. We feel that similar benefit will come to us from Odisha mines. Over and above that now JSW infrastructure has set up an 18 million tonnes iron ore terminal at Paradip Port. It has now become operational so it is a great synergy for JSW Steel Odisha mines to bring through this terminal iron ore to our Dolvi plant and also Salem and Vijayanagar plants. So that is another advantage which we will be able to get. In future lot of things which we can do to optimize the iron ore cost.

Amit Dixit: The second one is on the overseas subsidiaries. Some of your peers, overseas peers have got State aid in Europe. Are you also expecting or have got some State aid in Italian and US operations?

Sheshagiri Rao: Yeah, in the case of US we have got total 2.5 million grant subject to certain conditions to be fulfilled. So we tested over a period of time. In addition to this $2.5 million grant in the US we also got a loan of $10 million as assistance in the US, so 10 million as a loan and 2.5 million as a grant which was there at USA, which we already got. In the case of Italy would, can you clarify Jayant?

Jayant Acharya: So in the case of Italy the government has given some assistance for the workers for about 18 weeks during which the COVID impact was more. So that may be in the range of €0.9 to 1 million that is getting crystallized. In addition to that the government is considering soft loans but that has not yet been finalized or announced.

Amit Dixit: So this 2.5 million in US and 0.921 million has flowed through P&L right that is the correct understanding?

Sheshagiri Rao: No, it has not flown through P&L because there are certain conditions to be fulfilled so in the case of grant accounting we need to comply those conditions. So it is not flown as of on date through P&L

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

Ritesh Shah: My question was on iron ore. How should one look at the economics, I think the annual report does make a mention of royalty rates actually going down. There has been some press reports on that and secondly on IBM notified prices, so this too related to economics and you did indicate on the ore sourcing strategy. I just wanted to understand how does JSW Techno and BRPL assets also fit into the overall strategy and sourcing?

Sheshagiri Rao: No as far IBM pricing is concerned it is average of the unrelated parties' sale price which will go into IBM average price which they will declare grade wise. So that is a price based on which the premiums are to be paid, so IBM has been declaring. What we understood is that there is some amendment which is going to come to the mining law which includes the National Mineral Index which is going to come that would replace the current IBM price methodology. So that we have to see when it will come, when this amendment would come, what would be the methodology for calculating this National Mineral Index price? So the way today the Coal Price Index has been indicated in the case of coal auctions, a similar thing is likely to come in the case of iron ore. So that we have to see how it would shape up.

Ritesh Shah: Royalty and JSW Techno on overall scheme of things?

Sheshagiri Rao: JSW Techno, I didn't understand this question.

Ritesh Shah: The BRPL assets which are there under JSW Techno so when we look at ore sourcing strategy, should we consider this also into it or is it something entirely different?

Sheshagiri Rao: That is an independent company; it is no way related to JSW Steel. So these mines after meeting our capital requirements, if any surplus is there which are not captive that can be sold in the market, if it is captive 25% can be sold in the market if there is a surplus so we will just see whether there will be a surplus after meeting our requirements. So BRPL is an independent company therefore at that time we will take a call on that.

Ritesh Shah: Secondly you did indicate about Bhushan Power. Can you exactly illustrate basically what is the problem, I think it was regarding the attachment of assets? Is that the only thing and there was the erstwhile promoters had also mitigated something. So if you could just help us refresh that that would be quite useful.

Sheshagiri Rao: NCLAT judgment when it has come there are certain appeals which have been filed in the Supreme Court. One is by erstwhile promoters, the second this at an operational creditors, the third is ED has not filed but mentioned in the Supreme Court hearings that they are going to file an appeal to the NCLAT order but when CoC filed an application, for that ED responded by way of an affidavit which they confirmed in that affidavit that they will be filing an appeal. So therefore in summary there are three litigations one is ED, second is operational creditors, third is erstwhile promoters, so these three have to be disposed of for us to implement the plan.

Ritesh Shah: In the last call you had indicated cost savings up to 15% of fixed cost, have we realized any benefits in this quarter and are they something which are sustainable that one can look at it on a year-on-year basis as well?

Sheshagiri Rao: The total NSR reduction in the last quarter sequential basis I gave a number of Rs. 4800 whereas cost reduction I have mentioned about 4%. So this 4% reduction…

Amit Murarka: Faizan can we please take the last question?

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

Gaurav Rateria: What is the impact of product and market mix shift on realizations per ton basis and EBITDA per ton basis?

Sheshagiri Rao: Can you repeat the question, what you want to really get from us?

Gaurav Rateria: I want to understand there would have been some like-for-like correction in the steel prices; ex of that the product and market mix shift happened during the quarter due to which there is an impact on realization and impact on EBITDA per ton. I just want to quantify how much is the impact on realization and on EBITDA.

Sheshagiri Rao: It is very difficult to quantify what would be the impact on NSR. If I see last quarter average exports were 57%. We have already guided in this quarter the domestic demand is improving. April, May and June steadily domestic share is going up and export share is coming down. So similar trend will continue in the Q2, so the impact of the change in the geographical mix will definitely improve the overall NSR and EBITDA but we will not be able to quantify that. The second is product; product Jayant already explained to you. There were semis almost close to 13% of our sales last quarter so that will substantially reduce in this quarter. So therefore the impact of the mix in the product mix change that also will improve the overall realization and also the EBITDA.

Gaurav Rateria: And just to clarify on this 1,290 crores cash flow payment you made for the iron ore so this will be the debited the P&L as an expense over the coming quarter as and when you keep mining the iron ore, right?

Sheshagiri Rao: Yeah roughly right, in an advance today; advance for raw materials. So as and when extraction happens, when we lift the material from the mine this amount will be adjusted towards the raw material cost.

Gaurav Rateria: Last book keeping question, what is the cash flow from operations during the quarter and what is the acceptance number? Thank you.

Sheshagiri Rao: Acceptance number on the revenue account is 1307 million and the capital account it is 364 million.

Gaurav Rateria: Cash flow from operations?

Sheshagiri Rao: Cash flow from operations we have positive cash flow from operations. You see we have an EBITDA of 1,341 crores, we have covered our full interest so there is a positive cash flow from operations.

Moderator: Thank you. Ladies and gentlemen due to time constraint we will take this as the last question. I would now like to hand the conference over to the management for closing comments.

Sheshagiri Rao: Thank you very much for attending this conference. What I can tell you is in this quarter there will be improvement in the volumes. Vijayanagar has stabilized and inching towards increasing the capacity utilization. So we will do in terms of volumes and product mix wise better than last quarter. Number two is domestic demand steadily and gradually improving so our dependency on exports which we have done in the last quarter also gradually will come down in this quarter and going forward that will give an advantage to us in terms of overall improvement in EBITDA. The second is cost side, the targeted cost reduction other than the two key inputs that is iron ore and coal that benefit partially again will come in this quarter. The last one is coal, coal prices have come down internationally by almost $40 per ton so part of that benefit will come in this quarter. So cost side there could be a reduction over last quarter, volumes will improve, geographical mix will change, product mix will change, semis will come down. So these are the certain benefits which will flow in this quarter. Over and above that Odisha iron ore production, we will ramp up and also we will commission our three mines in Karnataka. So these are what we are seeing in this quarter. And on migrant workers coming back, we also focus to complete the projects which are there. So in this year as far as JSW Steel is concerned we have big change which is happening. Integration of raw material that is particularly iron ore, the second is the increase in capacity that is 5 million tonnes in terms of crude steel plus doubling of downstream capacity that is the most important thing. All these projects will get commissioned in this year so that is a kind of transformation that is happening in JSW Steel in terms of capacity increase, lowering of cost, in terms of integration with the raw material and also reducing the losses and making overseas operations profitable. They are the areas which we will be focusing in the balance nine-months and work very hard to achieve our guidance which we have given, a production of 16 million tonnes and the sales of 15 million tonnes. Thank you.

Moderator: Thank you. On behalf of Motilal Oswal Financial Services Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.