"JSW Steel
Q1 FY2022 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY2022 JSW Steel Earnings Conference Call hosted by Centrum Broking 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 "*" and then "0" on your touchtone phone. I now hand the conference over to Mr. Ashish Kejriwal from Centrum Broking. Thank you and over to you, Sir!

Ashish Kejriwal: Thank you Mallika. Good evening everyone on behalf of Centrum Broking, we welcome you all for JSW Steel Q1 FY2022 conference call. We are delighted to host the senior management over there, I would now hand over the conference to Mr. Ashwin Bajaj, Head Investor Relations to take it forward. Over to you Ashwin!

Ashwin Bajaj: Thanks Ashish and thank you very much for hosting the call today. Good evening ladies and gentlemen, this is Ashwin Bajaj and it is pleasure my pleasure to welcome you to JSW Steel's earnings call for Q1 FY2022. We have with us today the management team represented by Mr. Seshagiri Rao, Joint MD 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 and Mr. Rao and then open the floor to Q&A so, with that over to you, Mr. Rao.

Seshagiri Rao M.V.S: Good evening to you everybody. The first quarter of this financial year was very challenging, as the second COVID wave which started in the later part of March 2021 it spread across India. It affected many of the business. It affected health and consumer sentiment. It led to localized lockdown in several places in India so that had severe impact on the overall economic activity.

Responding to that, JSW Steel even at the cost of sacrificing part of the production in the last quarter we had supplied over 65,000 tons of liquid medical oxygen to hospitals. It is almost 1200 tonnes a day we have peaked during that period. Whatever we could do during that time either in terms of supporting the patients or oxygenated beds which have created over 1500 and supplying concentrators, supplying masks, sanitizers, grocery kits, there were series of things, which we could do as a part of our CSR activities.

Over and about that some of the employees are severely impacted so we have announced scheme to help the families of employees who lost their lives that an employee who died with COVID either in the first and second wave, their families will get 100% of the last drawn basic salary until the notional retirement. Well that scheme was introduced by us to help the families of employees because of this unfortunate demise of some of the employees. During the month of July, we are still supplying some oxygen, which is around 278 tons 300 ton a day even during July supplies are happening.

On the ESG front, we have taken a lot of steps in the company which we have listed out in our presentation. The major area is plastic waste management where we are rejecting plastics which will replace coke oven fines that will reduce the carbon emission. Similarly, gas cleaning plant which was setup is Dolvi it will reduce dust emissions like that series of steps we have taken as per the plan we have announced the company’s target to achieve in 2030.

Now this second COVID wave economic activity impact RBI has estimated recently it could be to the extent of around Rs.2 lakh Crores of loss in output in this current fiscal year. This time the wave was more in the rural areas where the first wave was more of urban and manufacturing but this time, it is more in the rural and agri area. That we have to see how the recovery will happen this time even though we all hope and wish that the recovery post first COVID wave, the V-shaped recovery we will see again this time.

As far as the overall steel demand globally as you must have observed, there is a huge amount of supply of steel in the first six months as per WSA release of the production numbers billion tons of steel was produced which was 126 million ton more than six months of the last year. What is also interesting is that out of 126 million tons, 67 million ton from the rest of the world, excluding China getting supplies have picked out in line with these surge in demand for steel mainly caused by infrastructure spend or energy transition related to capex that led to the steel demand but in spite of the huge supply of steel by way of higher production not only from China even from the rest of the world. The steel prices in the USA in the first half year went up by 73% and the Europe it went up by 72% even in China it went up by 31%. In quarter-on-quarter, we were seeing increase from point-to-point the price increases so that clearly establishes that globally notwithstanding increase in supply, notwithstanding the Russia putting 15% tax on exports and China withdrawing 13% VAT incentive on exports and European Union extending the TRQ, Traffic Rate Quota for another three years from July 1, 2021.

In spite of all these measures will be taken by various countries, increase in production, we have seen very strong demand that is absorbing the incremental supply in the market that is quite positive for the steel outlook. As far as India is concerned, we have seen a drop in the steel demand by almost 15.7% in the quarter just ended.

In these circumstances if you see as far as JSW Steel is concerned we have produced 4.1 million tons of steel. The year-on-year has no meaning because the base was so low, all the numbers look very, very good, but I will try to explain quarter-on-quarter. So -2% lower production in this quarter due to lack of oxygen, because this oxygen will be supplied for LMO purposes so the production has suffered. The capacity utilization was 91% in the last quarter against 93% in the fourth quarter of last year.

The consolidated sales were 3.47 million tons which is lower by 14% where Indian steel demand went down by 15.7% our steel volumes have fallen by 14%. The inventories were at 10.59 lakh tons. There was an increase of 428,000 tons inventory because many of the companies not only from steel sector, even others have attempted to increase exports from India considering very good demand overseas and the domestic demand bit sluggish in the last quarter that is why almost all the ports were completely congested.

Almost 120,000 tons of stocks which were ready for shipment at the ports could have been done in the last quarter almost old stock if we can 120000 tons added, our sales could have been higher in the last quarter. The exports were 1.2 million ton on a consolidated basis, which is 35% of the total sales. That is the growth of 16% quarter-on-quarter.

The way realizations have moved, the sales realizations on a blended basis have gone up by 19% as I gave you the number quarter-on-quarter in USA went up by 30%, in Europe, it went up by 40% whereas in Indian it went up only by 19%. So still the domestic prices are at a discount either compared to the international prices or compared to the landed cost of imports.

The cost of production in the last quarter went up by 10%. These all the percentages I am giving quarter-on-quarter. 10% increase in the cost of production is really on account of iron ore and coking coal so iron ore prices in India 52% has been increased by NMDC from April 1, 2021 to June 30, 2021. Similarly, ferroalloys, the power cost, refractories all these costs had a pressure on the overall cost of production which has went up by 10%.

EBITDA for the standalone basis is Rs.26,274 per ton, quarter-on-quarter there is an improvement of Rs.6500/t. It is 36.6% margin percentage. The standalone turnover went by 6%, the EBITDA was Rs.9,491 Crores in absolute numbers, which is a growth of 18%. The net profit was Rs.5,258 Crores a growth of 31%. So the major highlights in this quarter are the turnaround in the overseas operation.

The US operations contributed $44 million EBITDA last quarter as against $31 million negative loss in the Q4 of last year. Italy remained negative which is €4.8 million. We were expecting big orders for our rail mill, which got delayed. That is why we could operate the rail mill fully. On operation’s side there was a negative EBITDA of €4.8 million from Italian operations. So from overseas what is encouraging is Rs.282 Crores in rupee terms is a positive EBITDA contribution from overseas operations against Rs.322 Crores of loss in the previous quarter. Previous quarter I mean it is Q4 FY2021.

Similarly Indian subsidiaries have done extremely well. They contributed overall Rs.1,145 Crores either we look at Coated, ERPL, SCCIL have done extremely well in the last quarter.

After adjusting consolidation adjustment the subsidiaries both overseas and India together, there is Rs.782 Crores incrementally they have contributed to the EBITDA.

Over and above the Indian subsidiaries, the joint ventures and joint control they also done well, Bhushan Power and Steel have provided 690,000 tons of production like 480,000 tons of sales. They reported a profit of 745 Crores. JSW Ispat Specialty Steel Products, they also did well. They made positive EBITDA of over Rs.170 Crores and net profit of Rs.63.32 Crores. So these two joint ventures the proportionate profit to the shareholding held by JSW Steel Rs.323 Crores has been contributed by the joint venture.

All these translated in the overall consolidated EBITDA of 10,274 Crores which is 35.55%. It is growth of 22% sequentially. The EBITDA per ton on a consolidated basis is Rs.28,706 per ton, the profit after tax is Rs.5009 crores.

Debt has marginally gone up in the last. It is 54,989 Crores that is 2,374 Crores increase in the debt compared to March 31, 2021. In the last quarter majorly we have invested in the working capital side, inventories as mentioned to you finished goods inventory have gone up 428000 tons over and above we also have started stocking of iron ore and coking coal for our Dolvi operations. We have also invested in the inventories of raw materials so total together we have invested in the last quarter Rs.6,200 Crores incremental in the working capital.

We have spent capex of Rs.2,688 Crores so due to these large amounts of investment in the working capital, there was a marginal increase in the debt in the last quarter but overall ratios are quite healthy, debt equity at 1.04, net debt to EBITDA of 1.89x. If I look at the overall performance including the Ohio Crude production and also Bhushan Power and Steel and JSW Ispat steel products. We have a total production of 5.07 million tons and the total sales of 4.33 million tons.

Two more things which I would like to share with you is the investments we are planning to make to get the captive renewable power in the SPV, special purpose of vehicle being set up by JSW Energy for 958 megawatts of power, which will help the company in two ways. One is our strategy of reducing our dependency on the fossil fuel based power replacing with the renewable power that would help in the direction, cost of power, renewable power cost relative to what we are spending today is lower. The third is any fossil fuel we consume, we have an obligation RPO obligation, renewable purchase obligation of 21% in the state of Karnataka and also in Salem whereas in the case of Maharashtra it is around 10.6% so there is RPO obligations here.

If we are not able to procure renewable power directly, then we have to buy certification in the market, so there is additional cost involved over and above the cost of power so by investing in this JSW Energy SPVs to procure this power in a long-term basis, this is helping the company to procure power at a cheaper rate and also meet RPO obligation so we will be investing total Rs.445 Crores. These plants we will get commissioned in the next 18 months' time.

The second investment that has been approved in JSW Paints Limited generally it is unrelated business that is how the perception but is very, very strategic for JSW Steel. When we had our customer meet a few years back at the time, one customer has asked us, the painted coated steel, which we supplied can be give warrantee for more than 10 years then we were not able to give at the time because back-to-back we were not getting the type of warranties from our paint suppliers but after factories getting paint from JSW Paints not only will improve the quality of the steel which we supply after painting because we have 1600 shades because we need different types of grades of steel. We have set up an R&D Center in Vasind, JSW Paints. They are working along with our teams to develop new grades and innovative products and also, they are giving warrantees to enable us to give similar warranties to our customers.

The second area where we are seeing it will benefit JSW Steel strategically is that as you know, two years back our quoted capacity was 0.7 million tons whereas if I look at today the commission all the plants of pre-painted at all location, this capacity will go up to 2.5. We had Bhushan Power and Steel will go up further. So there is almost four times increase in the overall quoted capacity. So if we have to secure our paints today many of the paint companies in India, they are not expanding their capacity in the industrial pain segment they have been more in the decorative paints. So if somebody has to set up the facilities for us to meet our requirements, it is very much essential that we have develop the source thereby reliability of the supply of paints whatever we need not only to meet with this additional requirement in case if we want to expand that should be commitment that we will be able to expand capacities in the industrial paint space.

Considering these two factors availability of paints on a consistent basis good quality, developing new products, adjacent to us and working along with our teams considering these benefits we felt it is strategically important for us. That is why we committed Rs.750 Crores investment over a period of time. The first investment of 300 Crores will happen in this quarter. This has been valuation methodology that is prevalent in the industry. That has been followed by one of the big accounting firms whom we appointed. They arrived at the valuation. Based on the valuation is investment happening. It will be 6.88% of the first trench which we are investing of the capital of JSW Paints that we would get out of this year core investment.

We have two investments coming back to the projects. There are on track we have already commissioned the CDQ unit at Dolvi, for they are in advanced stage. The workers have come back to the sites. The work is going on in full swing so we will be able to commission the Dolvi expansion in this quarter.

With this, I will stop here and if any queries are there we are here to answer. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Vineet Maloo from Birla Sunlife Life Insurance. Please go ahead.

Vineet Maloo: Thank you for opportunity. Sir I just wanted to understand the raw material side, you mentioned that there is a bit of cost increase in there because of coking coal and iron ore so just wanted to know what would be iron ore cost in Q1 on average and what would have been in Q4 previous quarter?

Seshagiri Rao M.V.S: As far as coking coal is concerned last quarter, the C&F cost of coking coal which has gone into production was around $128. We expect that would go up over $30-$35 in this quarter. That is what we anticipate. That also will not fully reflect the current increase over $200 so that will come in the following quarter. As regards to iron ore we have secured 42% of the total consumption in the last quarter from our captive sources of iron ore. The iron ore prices in India have gone up by 52% as I mentioned to you and there is a small correction, which was done in the month of July. Now, more supplies are coming in the market in Odisha, so, we expect the iron ore prices in India may not go up so the higher cost of iron ore, which was there in the last quarter that gets fully reflected in this quarter. Further increases we are not anticipating in India, but coking coal as I mentioned to you this cost pressure over there.

Vineet Maloo: What was the increase let us say iron ore for you, let us say on in Q1 over Q4, can you share that? Overall, blended cost, I am not asking for captive or third party, just the blended cost of iron ore?

Seshagiri Rao M.V.S: We cannot give the exact number but generally it is in the range of per ton Rs.5000 to Rs.6000 per ton.

Vineet Maloo: That is for the iron ore that was increased?

Seshagiri Rao M.V.S: That is weighted average cost for the entire iron ore because it is costly for Dolvi. It is slightly lower in Vijaynagar.

Vineet Maloo: You are saying Sir that this is the highest cost has been factored in. There will be no further impact based on the prevailing prices on iron ore side?

Seshagiri Rao M.V.S: Iron ore side the higher iron ore cost may be partially will come in this quarter because of inventory situation we used in the last quarter of low cost inventories. Now the entire high cost it will get fully reflected in this quarter. No further increases I am saying over and above what we have.

Vineet Maloo: Okay beyond Q2 you do not expect anything understood. Thank you.

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

Pinakin Parekh: Thank you very much Sir. Can you give us sense of steel price in the market at this point of time? What we had heard was there was small domestic price correction but so far we have not heard of big price correction, when Chinese steel prices started going up so do you think there is an appetite or the market can absorb price hikes in August to September or the price remain muted because exports will come off?

Jayant Acharya The price in India is reflective of the weak demand in Q1 because of accumulation of inventory, when the shops were shut or manufacturing activities came to a standstill. There is an inventory buildup in the system so I think because of that sentimentally the prices in the Indian market have corrected both for flats and longs. We are seeing that this situation will stabilize probably post July where the inventories will come down substantially since the export from the major ISPs continue to remain safely upwards so therefore we expected the inventory's will stabilize. Having said that yes the international prices in China have gone up. The Futures have been going up over the last one or two weeks which is positive. Imports versus India I think we are at a discount level anywhere between 15% and 20% depending on which country it is comes from so we will watch the market and see the affordability and then take a decision.

Pinakin Parekh: Understood. Thank you very much Sir. My second question is on the investment in JSW Paint and SPVs for JSW Energy, now can this investment be further scaled up over the next two to three years if the requirement for the company go higher or these investments at this point of time final and we will not see further increased from here?

Seshagiri Rao M.V.S: As far as JSW Energy renewable sourcing of power is concerned our intention is to replace the fossil fuel power gradually over a period of time so those investments will continue to be there in future but it gives a huge amount of advantage which I just mentioned to you. If we do not qualify as a captive unit by investing 26% in SPV which is setting up renewable power there is a cross subsidy applicable. Cross subsidy varies from states to states it is some states even as high as Rs.1.30 paise to Rs.1.50 paise so in order to avoid that this investment is essential to avoid that cross subsidy over and above the cost of procuring renewable power in lower so these are the benefits and meet RPO obligation. So these investments will continue to happen in future based on how it progresses as regards to setting up these renewable plants. As far as JSW Paints, is concerned, this is a maximum what we have committed and there are no further investments in JSW Paints.

Pinakin Parekh: Just to clarify one question further on renewable what percentage of the company's current power consumption would be met by this initial renewable investment Sir?

Seshagiri Rao M.V.S: It is approximately 300 megawatt, 30% capacity utilization in this unit is generally there in the case of either solar or wind power so if you take it total at 18 million ton stage so we need close to 1800 megawatts total requirement, so that is why we are meeting may be 15% to 20% of our requirement.

Pinakin Parekh: Thank you very much Sir.

Moderator: Thank you. The next question is from the line of Amit Dixit from Edelweiss. Please go ahead.

Amit Dixit: Thank you for the opportunity. I have couple of questions. The first one is on your guidance that you gave for phase volumes and production at the beginning of the year, post Q1 results and post same volumes taking a hit due to COVID related disruptions, would you like to change the guidance?

Seshagiri Rao M.V.S: No we are not changing the guidance because there is an incremental volumes that would come in from expansion project in Dolvi that would be fully available in the second half even assuming some shortfall because of the oxygen supply in Q1 we are confident that we will be able to make it up in the second half.

Amit Dixit: The second question is, is it possible to let us know the iron ore external safe volume and revenue?

Jayant Acharya: One more thing I wanted to add on the inventory side, the inventory also, in addition to the inventory with Mr. Rao pointed out has got built up at the port 120,000-odd tons which could not be shipped because of congestion and vessels delays. We have consciously built up inventory in the pipeline because of a very low level of inventory as on April 1, 2021 to enable better servicing as the demand again picks up because as usual, in the end of March, we bring the inventories down so some part of the inventory buildup is conscious in nature and some part which is basically limited to the port, which would go. The other thing is that new lines have started and some of that would require raw material feed to be kept with the lines so therefore some inventory build-ups have taken place consciously on that side but having said that, I think during the course of the year, we expect this inventory to moderate to the levels and therefore, the guidance does not change.

Moderator: Thank you. The next question is from the line of Saumil Mehta from BNP Paribas. Please go ahead.

Saumil Mehta: Thank you for the opportunity. In terms of export market what we hear is most of the Indian players are close to exhausting their limits for the export markets in the European region which typically will shift back to our traditional market that maybe Southeast Asia or Middle East, where I think Chinese competition is going to be a lot more, view on the export markets for the balance part of the year, will be cut down on our export quota for the year and basically the net profitability in those markets would be cheaper than Europe? That is my first question and second is basically our captive iron ore what has been the experience of mining of our captive iron ore in terms of the logistical challenges or mining challenges, because there has been press reports about we are planning to surrender a few of our mines, I am sure that is no substance to it, but how has the overall iron ore mining experience for us? Those are my two questions. Thank you.

Jayant Acharya: On the first question of quotas which you mentioned I think you may be referring to Europe. European quotas for some of the products have got exhausted, but for certain other products, they are still available. We will be accordingly calibrating our exports to that market. We are developing alternate markets in around the European regions other than EU in particular. Some of them we were already present where we are increasing our supplies. We are increasing our supplies into Latin America, Mexico apart from the Middle East and Asia which you mentioned. So one is the development of markets is a continuous exercise and I think we will do that. The other shift I think which is structural in nature which you we have to keep in mind is that our Hot Rolled more and more of it is getting consumed into our downstream operations and downstream operations quoted even in this time our value added component was 61% even in export it was 59%, so those go out in small in containers across the world and we touch almost 100 countries around the world. As we increase our value added exports, our reach for those countries the base is already there, we will be able to increase some more volumes in those countries as well, so the diversification of markets is what we are already on.

Seshagiri Rao M.V.S: With regards to the captive iron ore issues which you pointed out last time also we shared with you majorly the quality, quality we have to improve to enable our steel plants more efficient and less fuel consumption that is why we have committed investments in the beneficiation plants near the mines. The second is, problems which are there in regard to compliances and also safety and security, we want to digitize entire operations thereby this compliance will be digitally done. There would not be any problem in the second area. The third area is logistics related either at the ports or not rakes not being available or complete roads are congested. These are the problems with regard to evacuation of iron ore produced at the mines, so to address this long term we have to setup ancillary pipeline, so pending that we have to live with it. I think the second steps are taken with regard to other two problems. As far as logistics are concerned, working continuously in this have to improve, how we are working on the captive on more side.

Saumil Mehta: Any comments on some of the news reports about we planning to surrender two of our mines some may be because of cost issue or in terms of economic sense?

Seshagiri Rao M.V.S: These are all speculations. As we mentioned earlier, we survived in the entire year last year, we have these mines, these mines are not there then there is no supply of iron ore. No availability. Therefore having a reliable supply of iron ore is essential to feed our plants consistently, so these are speculations that we are surrendering the mines in fact there are 10 more mines which are announced for auction in the state of Odisha, so we are participating even in those mines.

Saumil Mehta: Thank you so much and all the best for further quarters.

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

Ritesh Shah: Thank you for the opportunities. There are two questions. First for Acharya Sir. What are the lead times in US and Europe that is one? Also in the earlier comment you indicated that coated or downstream is the major chunk of exports and you also said that it goes in containers, now the concern over here is, is container issue a problem for us which can actually hinder the way in which we would want our export trends to move going forward and lastly do we have visibility on export booking into next calendar year or October to December this year?

Jayant Acharya: Your first question was US and European prices is it?

Ritesh Shah: Lead times.

Jayant Acharya: The lead times in both these markets actually have increased and if you look at the supplies also in the United States while they have sequentially improved the lead time still continuous to be reasonably high. Similar is the case in Europe. The demand has picked up better while the supplies have improved the demand continuous to overtake the supply side, so therefore the lead times are still high. Most of the mills are all booked out till October and some of them for the contractual even up to October, December quarter. So having said that your second question was with respect to containers and the export reach, so downstream products which constitute area of products, one is cold rolled, hot rolled, oil, galvanized, colour coated, Galvalume etc. The smaller countries we reach out by containers by virtue of the fact that it is smaller quantities and while there have been congestion in the container market, we expect that to ease as the supply side on the shipping side is improving. We have also shifted some of our volumes where we are able to combine ports to break bulk and from their supply onwards to the smaller market, with that combination I think we are able to reach the markets in downstream and that is why you see a 59% component in exports. Our overall is 61%, 62% is in the domestic, value added as a percentage of the total and 59% is exports. So we should be able to manage this. No doubt the freights have gone high that I think everybody is aware, but there is something which we will have to play out and wait for the supply side to stabilize and the price pressures to ease on the freight side.

Ritesh Shah: The third thing basically export booking visibility for October to December, the reason I am asking is we have cost inflation and Indian exports have been at lower pricing as compared to all the regions. Given the cost inflation that we have, are we confident that we could probably achieve the prices in several of our cost inflation and look at stable or to better spreads going forward, so basically, comment on pricing and spread would be useful?

Jayant Acharya: On the order side, I think what we need to keep in mind now is that post COVID, the government's infrastructure initiatives which have been announced in the budget are coming to play. Highways, national highways has been a project which has been continued across and is doing very well. In addition, to that we are seeing the oil and gas and water pipeline projects across various states coming up with sizeable volume of tenders we are seeing some export opportunities for larger volumes of let us say slurry pipelines which are being now taken up in countries where iron ore movement is there, so people are becoming much more environmentally conscious as we discussed earlier also the carbon footprint everybody wants to reduce, so this slurry pipeline concept is increasing and we see opportunities to export both plates, coils and products to those kind of initiatives. So these are longer lead time orders which we are in the process of booking. We are also booking longer lead time orders in wind and solar which is again a part of the renewable mission we see that part increasing, so yes there is some visibility of orders in the longer side. The other contractual orders which will be automotive and the quarterly contracts will continue in its normal course. We see the pre-engineered building segment doing quite well. Data centers, warehousing doing quite well, so these areas again are quarterly bound contracts, so quarterly volume indications are available.

Ritesh Shah: That is helpful. This question is for Mr. Rao. Sir, I just wanted to understand you did indicate the coated steel capacity has increased nearly three, four fold, just wanted to understand how much is the total requirement for industrial paints, putting in context in the total capex plans what JSW Paints had highlighted, if I remember it is trying to goes around Rs.600 Crores, so just trying to understand from a mass balance perspective, how much is that JSW Steel will require for captive consumptive versus total capacity decorative plus industrial paints for JSW Paints has?

Seshagiri Rao M.V.S: Decorative we are not present, we do not need decorative paints, we need only industrial paints. Industrial paints are concerned if you see the total consumption of industrial paints in India, the share of JSW is sizeable considering the increase in the overall capacity. This exact amount of requirement as a percentage of the total industrial paints that are consumed in India, we will come back to you on this.

Ritesh Shah: Thank you so much. I will join back the queue.

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

Sumangal Nevatia: Good evening. First question is with respect to subsidiaries international businesses which has been a very remarkable turnaround, so just want to understand little bit better you said US turnaround more sustainable in terms of how we had visibility over the coming quarters and then with respect to our Italy business, do we expect breakeven in the coming quarter, the opening remarks you shared that because of the delay in Rail Mill, the turnover was a bit delayed, so can we expect to break even as then profitable quarters coming ahead?

Jayant Acharya: On the Italian side as you are aware we have three product lines there, main stay is the Rail Mill which basically supplies rail to the National Railway Network in Italy and surrounding countries. Italy recently issued a tender in which we have won certain volumes. The contract issuance the awarding of that has been little delayed, so that should be coming in the first contract part should be coming in to us in this quarter and therefore that would make the rail mill ran at much better capacity. The other thing which the Italian Rail is doing is that there are now in the process of tendering or in the process of coming out with contracts for rail requirement over the next five years, because they are overhauling the entire railway system and changing may be certain sections of the rail which are older already, so that is also expected soon. Once the railway contracts are finalized by the Italian Rail we expect that the Italian operations will automatically start doing much better. We have lined up on the supply of semis from various sources including India to our wire rod operations and we have started building on the wire rod mill customers and we are seeing good traction on that, so on the wire rod mill side, we are seeing the order position improving so that also will help us to basically add to the EBITDA as we go forward. So yes I think July, September is the seasonally weak quarter at times in the west especially Europe because of holiday, so we will see certainly an improvement in the quarter July, September and going forward in H2 I think we are looking for breakeven and beyond.

Seshagiri Rao M.V.S: As far as US is concerned, the capacity utilization was low in the Q1 it is ramping up, therefore things should better going forward. The total demand was okay and the prices were quite good in the US so with that we find there will be improvement from here on is the Q1.

Sumangal Nevatia: Sir, my second question is would like your thoughts on inorganic opportunities. There are couple of asset being talked about NINL, RINL, NMDC, so just want you know your thoughts which are the probable assets to get divested and how does these fit our portfolio strategically?

Seshagiri Rao M.V.S: As on date, we look at the government actions two plants are ready for auction. One is NINL, second is Nagarnar plant of NMDC whereas RINL we have not seen any road shows or any progress from the government. If you look at these two both are sizeable, sizeable in the sense NINL has iron ore mine. The Nagarnar plant is 3 million ton plant. It is expected to be commissioned by end of this calendar year or early next year. So considering that both are interesting therefore we are evaluating both the options, so we will take a call once the full data is available and we will take a call.

Sumangal Nevatia: Thanks and all the best Sir.

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

Indrajit: Congratulations on good set of numbers. Thank you for opportunity. I have two questions. First, in this quarter how much have auto realization increased on quarter-on-quarter basis when the revisions had happened in the month basis and my second question is for Mr. Acharya, ex of China globally where have you seen pent up capacity expansions coming on or some of the north capacities getting restarted which region have you seen that or if you are seeing it at all?

Jayant Acharya: First on the automotive contracts, for the April, June quarter, we have been able to get the increase hot rolled products, long products and cold rolled and galvanized products. It ranges between for flat products between Rs.7,500 and about Rs.9,500 per tonne, in long products, it is in the range of about Rs.6,000 per tonne that is for the quarter gone by April, June. As you know automotive operates with the lag, so whatever increases have happened during April, June would become due basically from July to September, so therefore that discussion with the automotive companies are in the process. As far as capacities are concerned, I think I would say different regions will probably behave differently. Some of the older capacities which have been melted and pour, are now being looked at with the lens of what is required to achieve environmental compliance and with that level of compliance requirements and investments, some of the melted and pour capacities may not like to come back because the cost of compliance and the cost of operation becomes high. With the current level of coking coal and the current level of iron ore, I think in many areas it is not making sense especially outside US and Europe to restart some of the capacities, but in Europe and US some of the capacities may restart and some have just started, but while the capacities have come up, they are still behind from a supply perspective vis-à-vis what their earlier reached, so we expect that to catch up probably by the end of this year and they would stabilize to a level of where they were earlier with respect the volumes. I do not see that going up too much because some of the capacities would also go for some shutdowns because of certain compliance requirement to be met.

Indrajit: If I can ask one more question, on the power energy assets have you done some kind of IRR calculation in terms of what kind of IRR it may generate through the course of investment?

Seshagiri Rao M.V.S: That has been done. It is above our threshold as regards to the investment with renewable power. One is return. Second is entire world is moving towards decarbonisation, so it is one of the essential elements that we should do this. I think why we are moving towards going for renewables, but it is above our threshold.

Ashwin Bajaj: I have got a question. We cannot unmute your lines but have a question by message from Abhijit Mitra of ICICI Securities. The question is last year the HRC sales was 9 million tonnes, how much was export and after Dolvi ramped up how much HRC sales are we looking at?

Jayant Acharya: As far as hot rolled coil sales are concerned, our current supplies of hot rolled have been diverted to the downstream. We were expecting the Dolvi operations to start a little earlier. We were aware that COVID impact has taken the project out into July, September quarter, so it should start soon. Post Dolvi startup actually our sales have currently to for the hot rolled coils have gone down into the market, because of lesser availability, post Dolvi startup it should gradually stabilize to normal levels and improve thereafter during the course of the year. I will not be able to give you an exact number as to how much of the hot rolled coil sales exactly will come about that we can share Sesha or Ashwin can share that later.

Ashwin Bajaj: The next question is from Ashish Kejriwal of Centrum. He is asking about this issue of iron ore and duplication of royalty if there is any resolution and all that?

Seshagiri Rao M.V.S: Royalty is an issue which has been hesitated by the industry both mining and also the steel industry. What we understood is the government has appointed a committee to examine this point and make the recommendations to take a call, so the committee has been constantly in touch with the industry and they are taking presentation from the industry, so we are in the process hopefully in the next few months, they will take a view on this and then government will take a call.

Ashwin Bajaj: Thank you. Then we have question asking on capital acceptances and revenue acceptances from Saurin Shah.

Seshagiri Rao M.V.S: Revenue acceptances $955 million as on June 30, 2021, the capital acceptances was $565 million.

Ashwin Bajaj: Thank you. Then the next question is from Bhavin Chheda, iron ore mining premium and royalties are paid on the IBM index, so what is the lag effect here please?

Seshagiri Rao M.V.S: Generally, it is two months that is what we have been seeing, but it get adjusted whatever premiums we are paying if it is extra that will get adjusted, if it is a shortfall we have to make the payment as and when announcement is done.

Ashwin Bajaj: The next question from him is mining run rate at Odisha and Karnataka is higher, but captive usage was only 42% which means merchant sales of iron ore was much higher in Q1 for any color on that please?

Seshagiri Rao M.V.S: These mines are also supplying to Bhushan Power & Steel and Monnet Ispat. They would not qualify as the captive. So that is why overall orders we are supplying other than companies under joint management, joint control and also captive, it may exclude that what is sold in the market is not very high quantity.

Ashwin Bajaj: The next question is from Sumangal of Kotak. PLIs specialty steel how does this benefit us as the sector?

Jayant Acharya: The PLI scheme which has just been announced yesterday is very welcome. I think it is going to encourage investment in India. It will create opportunities for expansion and self reliance within India as envisioned by Prime Minister under the Atmanirbhar Bharat scheme. It is also very good step to substitute imports, produce these specialty steel within the country and leverage our base for exports or specialty products from India. As far as JSW is concerned, we have already initiated certain measures to look at some investments in some of the specialty products which is in the process and I think we will be able to give you more color as we go along.

Seshagiri Rao M.V.S: Just to add what Jayant as mentioned they said 25 million tons is the incremental capacity that is expected as an outcome from the PLI scheme involving the 40,000 Crores investment, but what is very, very encouraging is it is melted and pour is the requirement for this 25 million ton incremental capacity. The PLI scheme will enable more investments in the downstream that will create demand for upstream to the extent of 25 million because of this one condition of melted and pour so that is very encouraging in the PLI scheme.

Ashwin Bajaj: Thank you and we will take the last question from Pallav Agarwal of Antique. Any guidance on net debt and whether working capital levels have stabilized or will increase further from here?

Seshagiri Rao M.V.S: We are not envisaging further investment in the working capital. As regards to net debt we can only talk about the overall ratio of 2.75:1. We have kind of headroom from the current level which is there today. So we will be managing our entire growth plans within this ratio of 2.75.

Ashwin Bajaj: Thank you Sir. Any closing remarks from you?

Seshagiri Rao M.V.S: We have commissioned as I mentioned to you, the pellet plant at Vijayanagar, the CRM plant at Vijayanagar, coke oven plant at Dolvi and pellet plant at Dolvi and CDQ at Dolvi. I am very happy to say that they are all stabilized. The workers came back in Dolvi and hot strip mill is almost ready now. So we are also planning to send some slabs from Vijayanagar to Dolvi and roll those slabs into coils. Over and above that only unit is melt shop where work is in full swing. We think it will get completed before end of this quarter, so we are very confident that we will be able to commission this 5 million tonne. So the trigger here for JSW is the volume growth that would come in from Dolvi expansion. Over and above that the downstream capacities more or less got commissioned accepting the CRCA 0.5 million tonne and TIN2 more or less balance were all completed. So downstream is a good contributor for value addition and increasing our value added products proportion in the overall product mix plus the backward integration through iron ore mines. I think there are three very important things that would contribute in future the performance of JSW. Over and above that we have given the guidance about ESG. What is the targets for the year 2030. So we have been very actively evaluating to raise the sustainability linked bond based on this commitment which we have to achieve by 2030. This is one thing which we are evaluating to fund our capital expenditure program for increasing by another 5 million tons at Vijayanagar plus other requirements of the company. With that we expect the demand scenario in India is concerned we are seeing a good demand from solar, appliances and also the packaging industry plus signs of revival in the auto sector and also residential construction side we are seeing some uptick. So we are optimistic that the demand will pick up in the months to come. If not in this quarter because of the general subdued demand to the seasonal factors, so the demand will pick up. Why we are very confident is that even after second wave impact where economic activity came down, the total steel consumption in the last quarter was 24.7 million ton as against 12 million in the Q1 of last year. So the impact was moderate compared it to last year. Similarly, the way it picked up in the last financial year, the second quarter it was around 24 million tonne last year, it went up as high as 30 million ton, even assuming that the same amount of demand will come back into India, we will be close to 110 million ton total demand for the year, total consumption for this financial year. So we are quite optimistic as regards to the revival in steel demand in the Indian markets. Thank you.

Ashwin Bajaj: Thanks Mr. Rao and thanks everyone for joining us and bearing with the technical glitch. Have a great evening and good weekend. Thank you. Bye.