"JSW Steel Limited
Q4 and Full Year Fiscal 2020 Results Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Q4 FY2020 earnings conference call of JSW Steel. This call is hosted by IIFL Securities. 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, 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. Urvil Bhatt from IIFL Securities. Thank you, and over to you, Sir!

Urvil Bhatt Good evening, everyone. On behalf of IIFL Securities, I welcome you all to this call. Without taking much time, I would like to hand over the call to Pritesh Vinay, Vice President, Corporate Finance and Group Investor Relations at JSW Steel. Over to you, Pritesh!

Pritesh Vinay: Thank you, Urvil. A very good evening to all the participants and on behalf of JSW Steel, I welcome all of you to the fourth quarter and full year fiscal 2020 results conference call.

We have with us today the senior management team of JSW Steel represented by Mr. Seshagiri Rao, the Joint Managing Director and Group CFO; Dr. Vinod Nowal, the Deputy Managing Director; Mr. Jayant Acharya, Director, Commercial and Marketing; and Mr. Rajeev Pai, the CFO.

We will start with a few minutes of opening remarks by Mr. Rao, and after that, we will open the floor for Q&A. I am sure you all have had a chance to go through the results, the press release and the presentation, which are already uploaded on the website. With that, over to Mr. Rao for his opening comments!

M.V.S. Seshagiri Rao: Good evening and welcome to the briefing of our investors for the Q4 FY2020 of JSW Steel. This has been the best quarter in the financial year for the Indian companies. The production will be the highest and everybody will push for improving profitability in this quarter. Unfortunately, the unprecedented global health crisis, that is COVID-19, which led to lockdown across the globe, including India, that impacted the performance of companies and also economic activity completely disrupted and came to standstill, starting from March 25, 2020 in India.

Priority for companies has shifted from business performance to health, safety and liquidity management. The major steel consuming sectors are very severely impacted during this period. Even though the headline numbers of JSW Steel appears to be lower, either sequentially or compared to previous year, I think it has to be studied in the context of the overall performance of the steel sector either globally or in India. If we see the Q4, that is the Q1 globally, January to March 2020, the world steel production has come down by 1.4%. If we just look at excluding China, rest of the world, the steel production, in fact, fell by 4% during this quarter.

India followed the similar trend. But the fall in production, crude steel production, was much steeper in India, which was 7% year-on-year in the Q4 2020. If you compare with the fall of 7% crude steel production in India, JSW Steel reported crude steel production of 3.97 million tonnes in the Q4, which is lower by 5% year-on-year. Sequentially, it is lower by 1%. Similarly, the standalone sales number, headline number is showing 3.7 million tonnes, standalone, consolidated number 3.67 million tonnes, which is 15% lower year-on-year and 9% lower on a sequential basis.

But what is interesting here to see as regards to overall sales are concerned, India's consumption during the same period has also come down year-on-year by 5% and sequentially it went up by 2.5%. The headline number of JSW Steel was showing a fall of 15% year-on-year and 9% sequentially, but the domestic sales during the same period, if you just look at year-on-year, it has come down 5%, in line with whatever is happening in India. India's steel consumption fell by 5%. The domestic sales of JSW Steel also fell during that period by 5%. But what is interesting here, sequentially, the domestic sales went up by 3% in the quarter.

So whatever fall, which is disproportionate to the fall in consumption in India, is majorly moderation on account of exports. Exports, either sequentially or year-on-year, fell by 51%, that is why you would see a number of 15% fall year-on-year and 9% sequential basis in the consolidated sales volume.

For the year as a whole, the volume of production was 16.06 million tonnes, which is 97.3% of the revised guidance. Stand-alone sales were 15.08 million tonnes, which is also 97.3% of the revised guidance. The consolidated sales number was 14.90 million tonnes. The exports, year as a whole, went up by 30%. We did 3.12 million tonnes of exports.

If the Coronavirus impact was not there because of the lockdown from March 25, I think we could have achieved the guidance that was revised during the interim period of the year. When the volumes went like that in this quarter, the blended sales realizations went down year-on-year by 9%, but sequentially went up by 8%. This is what we were guiding when we announced our Q3 results that the NSR highest improvement would reflect in the Q4 that is what exactly has happened and the NSR went up by 8% on sequential basis.

We also could reduce the cost on year-on-year basis by 7%, but sequentially, it went up by 2%. The EBITDA per tonne for the quarter was Rs.8,713 as against Rs.10,236 in Q4 2019, but it improved substantially compared to Rs.6,620 in the Q3. So there is an improvement in the EBITDA per tonne in the Q4 over Q3. EBITDA margins improved to 21.1% as against 16.9% so reduction in costs, particularly on the coal side that helped to improve the margins, plus NSR improvement.

The EBITDA on a standalone basis was Rs.3,220 Crores, sequential improvement of 21%, and there is an exceptional item of Rs.109 Crores, which is provided in this quarter in the standalone books and

Rs.805 Crores in consolidated books due to diminution in the value of investments, loan, interest because of increased uncertainty as of the COVID-19 and also future business outlook.

With that, the profit after tax for standalone company was Rs. 242 Crores. All the Indian subsidiaries, either JSW Coated, ARCL, JSW Industrial Gases, the recently acquired Vallabh Tinplate Limited, which has become subsidiary, all these Indian subsidiaries have contributed positively. The total EBITDA contribution from Indian subsidiaries was Rs. 227 Crores. The overseas subsidiaries remained dragging the overall performance. U.S. Plate and Pipe mill, Acero Junction, Italy operations plus coal operations in the U.S., altogether negatively contributed Rs. 298 Crores.

Taking these 2 numbers and also the consolidated adjustments, the overall EBITDA for the quarter was Rs. 2,975 Crores, and the profit after tax because of Rs. 805 Crores exceptional item was Rs. 188 Crores. So this is the performance, which is relatively compared to what is happening in the market in terms of volume of production and volume of sales are in line.

If you see what is happening in other steel companies in their announced results, everybody talked about reducing capex, improving liquidity, reducing inventories and improving working capital, reducing costs that are the focus. In line with that, we have reviewed our projects. The major issue which we are seeing after the starting of operations in April 2020, in the later part of April 2020, operations, we could somehow manage to run, and right now, we are operating at 85% capacity utilization, whereas the projects at Dolvi, Vijayanagar and also downstream, they have some headwinds.

Headwinds majorly related to 2 items: One is migrant labor; second is, getting help from the foreign technology suppliers or equipment suppliers.

As far as migrant workers are concerned, we used to have 15,000 people working in Dolvi just prior to COVID-19, so that strength goes on dwindling notwithstanding the incentives that are being offered or whatever efforts we are doing to retain them. Now the strength is only around 30%. This is the situation in almost all the locations.

So the projects which we would like to complete, where the work left is maybe 6 to 8 months' time, we are not able to complete because of these 2 issues that have come because of COVID-19. Considering this, on expectation that some of the migrant workers who left before Holi, they are willing to come when we contacted through contractors. Assuming that they would come back and we will be able to restart work in the next few weeks, then we expect commissioning the originally scheduled will get postponed. So we will be able to complete the expansion project at Dolvi from 5 million to 10 million tonnes by second half of March 2021 so maybe in the later part of second half of this year.

As far as Vijayanagar is concerned, the wire rod mill and the pellet plant, increasing CRM1 complex downstream capacity to 1.8 million tonnes gets commissioned progressively in the Q2 and Q3, excepting coke oven plant at Vijayanagar, majority of the projects will complete before December 2020 and also complete all the projects in the downstream. So this is how we have seen and also put some mitigation plans to ensure that the project will start quickly, and we will be able to complete. Because of this stage the total capital expenditure that has been planned, we have removed. In the financial year 2020, we have given the revised guidance that Rs. 11,000 Crores we will be spending, against that we have spent Rs. 10,219 Crores. So whatever expenditure we have spent against Rs. 48,750 Crores, the balance expenditure will be spent on all these projects as on 31st of March 2020 is around Rs. 24,587 Crores.

In addition to that, there are very good developments which have happened. In the case of iron ore mines, we participated in auctions. We could secure 4 iron ore mines in Odisha, where the reserves are more than a billion tonnes. It has environmental clearances to operate at 29 million tonnes. We are supposed to produce at least 80% of the average iron ore produced in the last 2 years. Considering that we are obligated to do 16 million tonne of production, approximately 16 million tonnes of production, once vesting order is given by the government, and we commence operations of Odisha mines, so we expect a good iron ore production from captive sources for JSW in this year.

Over and above that, all the 6 mines which we got in the first stage auction in Vijayanagar, they have become operational. We have got over 4 million tonnes in the last financial year. This year, we expect 6 million tonnes to come from these mines. Another 3 mines which we have got, they also will become operational in Vijayanagar. So with that, we go up to 7 million tonnes plus in this year. So with that, almost a significant portion of captive iron ore will be from our own sources is how we are seeing. But in order to develop these mines, in order to ensure that they become operational quickly then we need Rs. 2,000 Crores, including upfront payment, which we have to pay.

Upfront payment is nothing but an advance, which is to be given to the government, which will be adjusted against the extraction of iron ore at that time where we have to pay the premium amount, that amount will get adjusted out of the premium amount we pay right now. So even though the total number is working out to Rs. 2,000 Crores, Rs. 1,200 Crores is towards upfront, balance Rs. 800 Crores is actually the expenditure, which we need to incur either for stamp duty or for other expenditure, which is involved in this case.

So actual capex involved in these mines is around Rs. 800 Crores. So whatever schedules now we have for operationalizing mines and also for completing these projects, which I talked about, then the amount of capex we have scaled down in this year, which will be Rs. 8,200 Crores towards capex, another Rs. 800 Crores towards mines, both together we will be spending Rs. 9,000 Crores in this financial year towards capex. With that, we will be completing Dolvi expansion and also except coke oven plant in Vijayanagar, balance needed completed, and the majority of the capex in Dolvi also in downstream also get completed.

Today's Board meeting, I am happy to share with you, the Board of Directors recommended a dividend of Rs. 2 per share subject to the approval of the shareholders. There the guidance for this financial year, what would be the production, what would be the sales number. We are watching what other companies are doing in the steel sector. Many of them are not willing to give the guidance. But after having seen what is happening in the month of April and May, we could estimate the production and sales numbers considering that there will not be any production from Dolvi expansion. If it comes, it is a bonus. Without that, we expect the production, crude steel production for this financial year will be 16 million tonnes, and the sales number will be 15 million tonnes.

What we are seeing as far as the market outlook is concerned, even though there are a lot of headwinds, which I just mentioned, that the migrant workers, coming monsoon, there is no vaccine for COVID-19, whether it will recur, there will be again frequent lockdowns that would be imposed. So there are lots of uncertainties with regard to the outlook. So everybody is doing lot of scenario analysis. At the same time there are certain good things also which are happening. One is relating to the crude prices, which is good for India. The second, fiscal stimulus, which has been announced and also a lot of credit flow, probably because of the monetary policy that is getting calibrated. So that should increase the credit flow to the industry. All this together, India, we expect slowly gradually it will recover; normalcy will prevail by September to October. Second half should look better for this year. It is how we are seeing in future.

With that, I will just stop here. If any questions are there, we are happy to take. Thank you.

Moderator: Thank you. We will now start the question and answer session. The first question is from the line of Amit Dixit from Edelweiss. Please go ahead.

Amit Dixit: Thanks for taking my question. I have two questions. The first one is on our leverage ratio. So given that there are significant uncertainties, we have still decided to go ahead with Rs. 9,000 Crores of capex. So what is the peak net debt-to-EBITDA or peak debt-to-equity number you are looking at based on which you will recalibrate your capex plan?

M.V.S. Seshagiri Rao: The total debt of the company as on March 31, 2020, the net debt was Rs. 53,473 Crores and we have cash balances of Rs. 12,004 Crores. So that way, we have strong liquidity in the company. Even assuming that we need to spend Rs. 9,000 Crores at a lower level of capex, taking into account the margins and the kind of EBITDA we expect in this year, we do not expect the leverage to go up than what we are seeing right now.

Amit Dixit: Okay. The second question is on guidance. I mean, I would actually commend you for guidance because lot of international companies and domestic companies have refrained from giving guidance, but you have given the guidance for the full year, at least on production and sales, very helpful. Just wanted to understand that of this 15 million tonnes, how much would be exports in percentage terms?

M.V.S. Seshagiri Rao: In the financial year 2020, which we just ended, our exports were 3.12 million tonnes, which was 21%. The exports will continue to be higher in the initial period until demand recovers in India, which we expect in the second half. So it is very difficult how much will be the exports out of this 15 million tonnes, which we talked about. So we are generally in the range of 25% to 30% in case Indian demand does not pick up; otherwise, it will fall down. So that is a range we expect in year as a whole.

Amit Dixit: Sir, in Q1, thus far, what is the level of exports approximately in percentage terms?

M.V.S. Seshagiri Rao: In the Q1, we will be in the range of 50% plus.

Moderator: Thank you. The next question is from the line of Anuj Singla from Bank of America. Please go ahead.

Anuj Singla: The first question is for Mr. Rao. Mr. Rao, this Rs. 9,000 Crores capex, could you also tell us, does it include the international capex as well for U.S., the Plate and Pipe Mill and also Acero junction? Also, does it include a part of your maintenance capex as well? Or that is over and above that?

M.V.S. Seshagiri Rao: Minerals I have already included, which I said for Rs. 2,000 Crores, Rs. 1,200 Crores is only an advance. It is working capital, that amount will get recovered in the iron ore, which you get from the mines during this year only. So there is no actual outflow if you see year as a whole. Then what is left is Rs. 800 Crores. Rs. 800 Crores is included. Rs. 8,200 Crores plus Rs. 800 Crores that is Rs. 9,000 Crores. As far as the global capex is concerned, even we have put now the Phase 2 of U.S. Plate and Pipe Mill on hold. So we are not going ahead with that. Phase 1 is already completed in the Baytown. So there is a balance capex may be around $25 million. There is another $25 million in Acero Junction. So total around $50 million will be the capex over and above this Rs. 9,000 Crores in the overseas.

Anuj Singla: Okay. And this will be in FY2021?

M.V.S. Seshagiri Rao: FY2021.

Anuj Singla: Sir, the second question is for Mr. Acharya. Mr. Acharya, the domestic market has been closed with limited transactions since March end. Could you provide some color on how do you see the realizations panning out, whatever limited information is available? And is there a downside risk to the prices once things open up, given that we might be trading at a premium to landed cost of imports?

Jayant Acharya: Yes. So no, on the price side, I think, see, the economic activity in the month of April, as all of us know, has been very weak. So without an economic activity, pricing, anyway, did not have any sense. So we have basically been operating a roll over for March and April and for May. As the economic activity picks up, we will see. But our sense is that the pricing today is getting, let us say, to some extent, also in line with the antidumping numbers, which are available for certain products in the country. So there is a floor which is available. So I think from that perspective, if I look at it, we are not very far. So we are in that range of an antidumping number, which is there. So difficult to give any kind of color on pricing now beyond this because the activities in the domestic have just started opening, it is just graduating up, but I expect that since the economic activity is right now just starting up, pricing will remain in a reasonable range.

Anuj Singla: Sir, let me ask it in a different way. So versus the March exit rate, or let us say, a benchmark product like HRC, where will be the antidumping level be versus March exit rate and the antidumping level, what will be the cap there?

Jayant Acharya: So no, yes, antidumping level, you can calculate, you have $489 as the number, $489 for hot-rolled coil, based on that you can take the antidumping number calculations.

Anuj Singla: Sir, I just wanted to understand what was the March exit rate? So what is the premium to that antidumping level for the March exit rate, if you can share the number?

Jayant Acharya: I think, yes, and no, I will not be able to give you the March exit rate right now. But I think the color basically is that $489 is the antidumping number today for hot-rolled coil. So that should give you some guidance with respect to where the numbers could be.

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

Ritesh Shah: Sir, first question is for Rao Sir. Sir, on the net debt

M.V.S. Seshagiri Rao: Can you be louder; I am not able to hear.

Ritesh Shah: Yes. Sir, on the slide, what we see is net debt-to-EBITDA at 4.5x. Sir, we have always maintained that magical number of 3.75x, and we have not even reduced the capex, probably. It is still high, Rs. 9,000 Crores. So Sir, how should one look at this 3.75x number? If you could give some color around, if at all, there are any problems on our bonds?

M.V.S. Seshagiri Rao: I think the way we have to look at the ratio of 4.5x debt-to-EBITDA, this Rs. 53,473 Crores of net debt, it has gone up compared to December 31, 2019, on account of 2 things: one is exchange rate. Exchange rate variation has increased the debt by Rs. 1,517 Crores; and also the capital acceptances, which are more than 1 year, as per revised accounting guidance, this has been classified as the debt, which is Rs. 1,906 Crores. So this is Rs. 3,423 Crores both together. If I just take out this amount and then see the actual debt increase, December 31 and March 31, it was only Rs. 500 Crores. Similarly, Rs. 53,473 Crores debt includes approximately Rs. 16,000 Crores of debt, which we raised for the expansion and the capex, which is not giving any incremental EBITDA, which we expected in this year, maybe partly may come in this year, partly may go to next year. So due to this Rs. 16,000 Crores, debt-to-EBITDA has gone up above our comfort level of 3.75x. That is where we will work in this year to bring it down to the level where we are comfortable. And the way we are guiding this Rs. 9,000 Crores of capex, which we are going to incur in this financial year, even then we would try to maintain within these ratios. As far as covenants is concerned, there is no issue at all. Covenants are for the standalone company. So there when we calculate, we are well within the covenant stipulations.

Ritesh Shah: Sir, you indicated that you will try to be at the current range, but looking at the macro scenario what you painted, with Rs. 9,000 Crores of capex, Sir, where should we look at ourselves at the end of March FY2021. It looks pretty difficult, honestly, 4.5x, this number is likely to go significantly higher. And then also there is an optionality of Bhushan Power. So Sir, if one has to put these 2 variables in context, how should one look at the balance sheet and the capital structure? Are you looking probably, are you open to equity raise or how should one think of this?

M.V.S. Seshagiri Rao: No, when we guided the sales number of 15 million tonnes, and we are saying that there will be a cap to iron ore and the coal prices globally are coming down and the second half domestic sales will pick up until the time we are relying on exports, and export realizations are also not so bad because of rupee depreciation of close to 9% in the last year and also almost close to 5.5% in the quarter. So this has made the exports reasonably attractive in terms of NSR. So margin side, we are reasonably okay that we should be able to maintain these ratios, even if we have to consider a Rs. 9,000 Crores capex and other commitments, which we have. Then as regards to M&As, we have only 2 M&As we talked about, one is Bhushan Power & Steel, another is Asian Colour that both the things are under the purview of now Supreme Court, one under NCLT that is yet to be approved. So that will take some time. By that time, it will fructify.

Ritesh Shah: Sir, would you like to give some number on 3.75x. So I think 1 big concern we will have is specifically on the balance sheet side. So Sir, quantify something over here that we would not reach a particular number that we are looking at, taking into account the revised capex that will provide a lot of comfort.

M.V.S. Seshagiri Rao: No our effort is not to increase the debt and also not to breach the debt-to-EBITDA. Debt-to-EBITDA is a relative number. Debt, as long as we are able to manage to keep the debt within that and incur Rs. 9,000 Crores capex on to the cash flows of the company, we are reasonably confident we should be able to do that. Then I do not think there is any worry as regards to balance sheet. Now only issue that is left out is M&As. M&As, I told, we feel that it will take more time than what we were all anticipating earlier to get any outcome from the courts in the current environment.

Ritesh Shah: Correct. Sir, my second question is for Jayant Sir. Sir, in the prior question of Anuj, you had indicated about $489. Sir, if you can provide perspective on the inventory levels, which have been there in the system. How will you bifurcate it between flats and longs? And I think $489 is Rs.36500. So how should we look at inventory levels as consequence of high interest that we see given demand is not there and our export volumes have also dropped substantially.

Jayant Acharya: Yes. So our inventory levels as over April 1, 2019, we actually added about 100,000 tonnes of inventory in the Q4, primarily because of COVID-related issues. Otherwise, actually, we would have achieved inventory reduction over April 1, 2019. But we added about 225,000-odd tonnes over April 1, 2019. Our inventory levels including everything would be about 1.16 mt approximately in the entire system, which is including of finished work in progress as well as semi in the system across all locations.

Ritesh Shah: Sir, how much would this be at country level?

Jayant Acharya: Sorry?

Ritesh Shah: How much would the inventory be at the country level, a broad number? I am just trying to understand the prices to...

Jayant Acharya: Country?

Ritesh Shah: Yes, yes.

Jayant Acharya: Country level? This is country level only.

Ritesh Shah: 1.16?

Jayant Acharya: Yes, yes. Country level means, I am talking about the inventory, which is lying at plants, which is lying at ports, which is lying in the yards or even transit.

Ritesh Shah: Sir, any bifurcation of flats versus long over here?

Jayant Acharya: I do not have that off hand. I can give it to you later. I do not have it off hand right now. But flat inventory will be more than the long inventory.

Ritesh Shah: Correct. Sir, just a related question, I think if I heard it right, we said that we are operating at 85% utilization levels. Now you painted a very faint picture on demand. So how do we justify 85% utilization levels given the inventory is I do not know whether it is near-normal, but the utilization levels look quite high. So how should one look at this?

M.V.S. Seshagiri Rao: Okay. Can I answer this question? See, generally, what we are seeing is all the market analysts and experts are talking about demand. They are not looking at supply side at all. There is a huge problem even from the supply point of view. If you see the April number released by JPC, even the production has come down quite drastically. Whatever production that has been done in India, that has been done only by 6 players; 91% of the production was contributed by only 6 players. So therefore, there is a huge issue with reference to creating working capital from the banks and restarting operations for many of the secondary steel players and other smaller players so in that context, once you look at demand has come down by 91% in the month of April, but the production also has come down by 67%. So this is what is to be seen in the market. You have to see separately both flats and long. Long, who are the producers; flat, who are the producers, what is the demand outlook for flat. What is the demand outlook for long? In that context if you see, I think there is a possibility for larger players like us will be able to manage the situation, even though demand may not be robust enough.

Jayant Acharya: I think 1 more thing I can add here is that even if you look at the inventory levels today, the inventory levels today are lower than what it was in the month of, let us say, September, October when things had really become much more difficult. So I think from an inventory perspective also, if you look at the industry, not only at JSW, things are not as difficult as they were sometime in September, October of 2019.

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

Pinakin Parekh: Sir, 2 quick questions. The first is that if I look at the Rs. 9,000 Crores of capex guidance and at some point of time in the next few months, the Bhushan Power deal will also be done. I mean, there is a lot of uncertainty regarding how the COVID-19 pans out. Historically, the company has taken approvals, Board approvals for equity issuances, but has not gone ahead with it. This time, is the company going to rethink its strategy and raise equity because there is a lot of projects which are half completed and which need to be pushed? Whilst JSW is among the lowest cost converters, the macro environment could become challenging again in the second half if the virus does not fade out. How would you view potential plans to issue equity?

M.V.S. Seshagiri Rao: We have taken the approvals from the Board for raising resources both in terms of equity and also by the debt. We also get approvals of shareholders in July. Once the approvals are in place, we continue to evaluate raising of resources to address the issues which you raised. We expect that the things will improve. Even then, during this period, we continue to look at raising of resources to complete these projects and also to reduce the leverage.

Pinakin Parekh: Okay. Sir, my second question is on MIP. Now the $489 MIP, if I remember correctly, was imposed for a period of 5 years, and is expected to get over in March 2021. Now as a steel industry, the companies have put in aggressive capex, is acquiring a lot of assets under the NCLT. What are the thoughts that the company is hearing or the industry is hearing from the government on plans to extend the MIP? Or is this that the government believes that the MIP's purpose is done and in 6 months' time, we should revert back to a normalized steel import and pricing environment?

Jayant Acharya: Okay. No, I am saying, first of all, the MIP, the particular trade measure, which is in-force, is antidumping. MIP was long exhausted long time back. And antidumping was introduced on certain products and hot rolled is one of them. There are other items like hot-rolled plates, like cold-rolled, like color-coated, etc., which are covered by antidumping measures. Antidumping measures are initially introduced for a period of 5 years, and it has a concept review clause. So you can review the antidumping measures, and then depending on the situation and the case, it can always be reviewed, but I think given the current situation of the global steel industry, given the fact that trade actions between U.S., China and consequent actions by other countries are being been taken, I think India will also be prudent and take measures accordingly to safeguard its own shores. We have also seen the Prime Minister announce very clearly this time a slogan of going local. So the focus, I think the way things will work in a difficult challenging situation, the way we are facing in COVID-19, will be to make in India, buy in India and export from India.

Moderator: Thank you. The next question is from the line of Ashwani Kumar from Nippon India. Please go ahead.

Ashwani Kumar: I have 2 questions. One is that are there any segments where you are beginning to witness improvement in demand and therefore, consequently, you are supplying more, particularly the projects, etc. That is one. And second, in light of the situation where initially, the automotive demand might remain low for some time because of severe impact on, let us say, the various businesses. What exactly as an institution or as a part of CII you expect to make the revival in the industry and consequently for the steel demand?

M.V.S. Seshagiri Rao: Jayant?

Jayant Acharya: So in certain areas where we see activity, which has improved in projects specifically, if I were to mention, I think road projects have picked up. Metro projects have picked up across various locations. Transmission towers, we see a pickup in activity. Railway, we started again the dedicated freight corridor work. Pre monsoon activities have been started in many areas. It has been permitted officially. So what happens during this time is that the foundation which was left, let us say, incomplete, that will be completed so that the activities thereafter can pick up faster. Irrigation projects in certain areas, specifically in Telangana, Andhra Pradesh area, that area has started. In Madhya Pradesh, we have seen another irrigation project start up. Gujarat, the Sauni Pipeline project work has restarted. And some structural tubing’s, which is going into construction, specifically for, let us say, individual builders or smaller industrial units have restarted. PEB, pre-engineered building, warehousing activities have, again, we are seeing some traction. Solar projects, there is some pickup, which has started, and then packaging industry, I think there is food packaging, whether you call it about food, pulp and lubricants packaging, these areas have picked up. So we see a gradual opening up as the units have got permission. And these are some of the areas which we mentioned where situations are a little better. In the automotive side, as you rightly said, things are under pressure. However, I think the activities in 2-wheelers are better. The 2-wheelers have already picked up activity to about 50% levels now, and we see that complemented between domestic and exports both. And I think the bigger car manufacturers like Maruti and Hyundai have restarted operation. They are trying to put in place a supply chain. And I think from June onwards, we will see maybe a slightly more better pickup, I would not say back to normal days, slight better pickup in the smaller car segments where people would try to maybe acquire smaller cars rather than use public transport to the extent possible post COVID-19.

Ashwani Kumar: Sir, this would amount for what proportion of your total output. Let us say, 100 is the total output, where the activities are normalizing, that would account for what proportion of total output for you?

Jayant Acharya: I think we have to understand where we have come from. We have come from, as Mr. Rao was also saying that in the month of April, we had a demand destruction and supply side huge correction in terms of production, primarily because the economic activity came to an abrupt halt. The lockdown continued to be extended, and we are aware how the lockdown extensions have happened. And permissions have been given gradually, depending on state to state, depending on the zones, which the states have defined within those zones. So I think the activities, whether it is with 33% manpower or with 50% manpower, have started, I think, I would say, across most of the segments. I think, economically, every company is wanting to get back to business as soon as possible and therefore, the effort is being made by each individual organization to come back. So therefore, I would rather than putting a percentage as to what component it accounts, I would say that today, let us say, in South, if I were to look at South, I would say that 50% of the level of operations have already, by and large, got into place, and it is fully open. So the question of getting additional manpower in place and putting more people on the ground, ramping up the operations is in the process. Similarly, in West, I think most of let us say, rest of except Mumbai, Pune and Ahmedabad, which probably is operating at one-third level of manpower, the balance areas have already started operating in at 50% manpower level. They are ramping up and trying to operate in terms of lines to the extent possible and using this gradually to basically ramp up their productions as well. Similarly, north, we are seeing, again, ramp-up in different levels in different states at different points so anywhere between 33% where the areas are more impacted and 50% plus in certain areas which are more open and south specifically is better placed.

Moderator: Thank you. The next question is from the line of Vineet Maloo from Birla Sun Life. Please go ahead.

Vineet Maloo: I think I missed this, if you have commented on this, on the new mines in Odisha that we have won. So what is the progress out there in terms of taking over the operations, etc., from building whatever formalities are required for all those things? And when do you expect output to start from there for your own use? If you can also detail some of the plans in terms of what kind of logistic, etc., you are planning?

M.V.S. Seshagiri Rao: As far as the mines are concerned in Odisha, as you know, at the time of auction, they said the approvals like environmental clearances and all that which are there today; they will get transferred to the new lessee, which are valid for 2 years. So therefore, there are no fresh approvals that are required to be taken. So just you have to make the payments and then finalize the MDOs and then start the mining because they are all operating mines. So we are waiting for the vesting order to come in from the government. Once vesting order comes, we can make the payment. To get the vesting order why it is getting delayed for these 1.5 months is majorly central government has contemplated certain changes in the mining law, which you would have seen already in the press. So one of them is relating to stamp duty rationalization. It is something which is happening. So for that, now that is more or less clear, hopefully, now the vesting order would be given by Odisha government. Based on that, we will make payments and make them operational very quickly. Our plan is to make them operational, at least out of 4 mines at least 2 of them by July 1 that is how we are planning to do. Then what is the second question you asked?

Vineet Maloo: What are the total output you expect and then the logistics part?

M.V.S. Seshagiri Rao: Yes. Output I have covered initially that the total environment clearance all the 4 mines together is 29 million tonnes. Out of that, minimum which we need to do once vesting order comes in is 16 million tonnes. So that is the kind of production which we expect from Odisha in this year in that range. Similarly, in Karnataka, there are 3 mines, which we expect 1 million, 1.5 million tonnes from these 3 mines, once they have become operational. So if I take 16 million tonnes as the guidance which we have given for crude steel production, if you say 31 million, 32 million tonne is our iron ore requirement for the year, then 16 million tonne from here and 7 million tonnes from Karnataka, that means 23 million tonnes will be captive out of 32 million tonnes. So that is the kind of situation which is coming in this year. Our reliance on the merchant mining companies will come down quite substantially.

Vineet Maloo: Sir, on the logistics part from Odisha?

M.V.S. Seshagiri Rao: Logistics are concerned, out of these four mines, there is one mine, there is a railway siding in that mine. So that will be very helpful for moving the material to the port.

Vineet Maloo: Sir, I am sorry, your voice was breaking. I could not hear you.

M.V.S. Seshagiri Rao: Out of the four mines, there is 1 mine which is having railway siding, so that will be very helpful to move the material. So balance, we will do until the slurry pipeline comes up over a period of time, we will continue to operate the way we are bringing in iron ore from Odisha, Dolvi and Salem plants.

Vineet Maloo: Okay. Sir, one last question I have is, some of the overseas assets, etc., which we have been holding for some time now, for example, Chile mine, etc., but now in the overall scheme of things, maybe those are not as important right now? Or are you taking a relook at some of the overseas assets that you have any other overseas assets?

M.V.S. Seshagiri Rao: As far as Chile mines are concerned, now we have written off entirely the investment in Chile, so there is 0 today. So now we will look at whether anybody is willing to take that mine. Yes.

Vineet Maloo: Okay. Sir, is there any consideration that you would be looking to, let us say, not do the Bhushan deal. Is there a contemplation regarding that? Or you would still continue to pursue it?

M.V.S. Seshagiri Rao: So that question does not arise because we have given a resolution plan, which has been approved, that is pending in the Supreme Court. So Supreme Court, there is a lot of litigations, which still requires to be resolved. So we wait for the litigations to be disposed of.

Moderator: Thank you. The next question is from the line of Abhishek Poddar from HDFC Mutual Fund. Please go ahead.

Abhishek Poddar: Sir, this is regarding the Odisha mine auction, the mines that you had for auction, other mines that we have, if we look at the premiums that you have paid and we add up the production and mining costs to that, I am just trying to make sense of this thing that if we look at next 3, 4 years, financially, how this is going to make sense? What is your expectation of the merchant mining things in India that these payments will kind of make sense to our financials?

M.V.S. Seshagiri Rao: So we also paid premium for getting iron ore mines in Karnataka. We have been operating those mines for the last now more than a year, but we have no regrets for having got the mines at a higher price. Because having our own mine from captive sources is a big lever for us, to have enough stock without coming under pressure to participate and buy the iron ore at any cost. So therefore, there is lot of other advantages. We can do mining in a scientific manner and get iron ore of high-quality sometime, which is required for the clients. So the other incidental advantages, which will come in, we cannot just look at the premium, it is very strategic to have captive mines. So this will be very, very helpful. For instance in Odisha out of the 4 mines, there is 1 mine where the quality is very, very good, more than 65% Fe and low aluminum. So therefore, for blending purposes that could be very, very helpful to achieve the productivity and other benefits. Over and above that, gradually over a period of time once we set up slurry pipeline, there is a lot of savings which could come in on account of freight and other areas.

Abhishek Poddar: Understood, Sir. Sir, on this national mineral index that the FM has announced over the IPM prices so will that change your sense? Should we start looking at one index for the entire country then? Or how are you viewing this?

M.V.S. Seshagiri Rao: That is what the government's intention, like Coal India, the way they have the way the index instead of having for 1 single price, they would like to have 1 instead of having different prices for each state, and they would like to have 1 price for iron ore. Similarly for coal, they would like to develop coal index. Then instead of paying per tonne, they would like to convert into revenue sharing model. These are all good concepts. It has to be implemented quickly.

Abhishek Poddar: Right. Sir, one confusion I had was that say for IBM we have a separate pricing for different states. So that system will go away with business is it?

M.V.S. Seshagiri Rao: Yes. Once this national iron ore index comes in 1 price, then it would not be the way it is happening right now for each state the average of the coal, iron ore that is traded in India.

Moderator: Thank you. The next question is from the line of Rahul Gupta from Fidelity Investments. Please go ahead.

Rahul Gupta: Sir, I have 2 questions. First is just on this guidance for next year. So you are broadly more or less guiding for flat volumes next year. Now if I look at right now, you are operating at 85% utilization and April numbers you have already reported, which was down sort of 60%. So let us say if I do a rough math, first quarter volumes itself would be down probably 40%, 50%. Sir, I am just trying to understand how do we achieve this guidance because you have also mentioned that Dolvi commencement will get delayed, so it will probably get commenced towards the end of, let us say, somewhere in the mid of second half of the year so incremental contribution from Dolvi would also be limited. So I am just trying to understand how will you achieve this guidance?

M.V.S. Seshagiri Rao: No, if you see the last year number, we have achieved 16.06 million tonne production. The 16.06 million tonne production was impacted by COVID-19 in the last quarter and also extended monsoon and also very, very weak demand in quarter 1 and also some shutdowns at the plant. So if we just normalize these items, which are there in the last year that would not be there in this year. After adjusting April-May production shortfalls that is there relative to what otherwise would happen, I think this is an achievable number, whatever we are guiding.

Rahul Gupta: The second question I had is on revenue acceptances. If you can just give what is the number right now. And I understand that this is like a rolling facility we have, but in current environment where there is a lot of conservatism from banks on lending on anything. How are we seeing banks still willing to fund that? If you can just talk about how that works and what are the risks there? Can that funding go away from us in the short term?

M.V.S. Seshagiri Rao: No, what we are getting by way of revenue acceptances is a combination of supplier's credit and buyer's credit. Supplier's credit is extended by a supplier. These are all big suppliers. So I do not think there is any problem of risk of not able to access that credit. That is not an issue at all. So today, Rs.1102 million are the revenue acceptances as on March 31, 2020.

Rahul Gupta: Okay. So it is basically funded by suppliers and buyers, not the bank, you are saying?

M.V.S. Seshagiri Rao: Not Indian bank. Indian banks open LCs.

Rahul Gupta: Even from buyer's side, there is no issue as such?

M.V.S. Seshagiri Rao: Buyers are against LC only. So there is no issue.

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

Indrajit Agarwal: A couple of questions from my side. Generally, we see the auto shift price revisions happening in this time of the year, the half yearly price revision. Given COVID and all, have you seen the resumption of stocks with the auto suppliers, auto OEMs in terms of pricing, what it will be for the next 6 months or so?

Jayant Acharya: Yes, there is a price revision due from April. But given the situation of April, the discussions have just started. I think we will see how the discussions go for with the auto makers so yes, just begun now for the 6 months.

Indrajit Agarwal: Sure. That is helpful. Second, on coking coal cost, can you tell us how much was it down quarter-over-quarter in terms of booking in the P&L? And how is the spot price versus what we have booked for the last quarter?

Jayant Acharya: With coking coal prices, what we had for last quarter, I think we had guided that we would be about $10 less. So I think we were in ballpark on that number, I think, $1 or $2 more than that. We will be flattish. So we were at about, I think, 141, 142 CFR in last quarter, and I think it will be around flattish in this quarter as well, will remain flattish, yes. But the prices were higher in February and March.

Indrajit Agarwal: Yes. On that same note, when does the lower iron ore price in India hit us on our P&L? So the recent price corrections by NMDC or other miners, when does that impact us on our P&L?

M.V.S. Seshagiri Rao: No, that will come quickly within a matter of may be 10 days. We do not maintain huge inventory of iron ore at Vijayanagar plant. So whatever reduction that would happen, that will flow with a 15 days lag.

Indrajit Agarwal: Sure. That is helpful. And 1 last housekeeping question, if I may. How much debt is coming up for renewal in FY2021 for us?

M.V.S. Seshagiri Rao: What is the renewal, sorry?

Indrajit Agarwal: How much debt, how much debt is up for refinancing or renewal is maturing in FY2021?

M.V.S. Seshagiri Rao: Total amount of debt that is due for this year is Rs. 7,500 Crores.

Moderator: Thank you. The next question is from the line of Abhijit Mitra from ICICI Securities. Please go ahead.

Abhijit Mitra: Yes. I have a couple of questions. First, on the iron ore side, out of the 29 million tonnes that you plan to mine, 7.5 million, 8 million tonne is lump. So what is the plan of action with those lumps? That those are quite costly and does not fit exactly in your production schedule in the current form so any thoughts on that?

M.V.S. Seshagiri Rao: Whichever not possible to use, we can sell in the market. That is not an issue at all.

Abhijit Mitra: And with those premium, is it commercial to sell lumps?

M.V.S. Seshagiri Rao: Yes, it is possible to sell.

Abhijit Mitra: Secondly, on the overseas operations, this quarter, I was just looking into Q4; the EBITDA loss, including U.S., Ohio, Piombino, all combined is almost $40 million. So what is the cash loss that you have incurred in overseas operations this quarter? And how do you see this spanning into FY2021?

M.V.S. Seshagiri Rao: If you look at Q4 total loss of Rs. 298 Crores is lower than Q3. So steadily, gradually, it is coming down. So we expect things to get better maybe in the second half of this financial year.

Abhijit Mitra: Right. So what sort of financing needs have you sort of kept in mind for these operations overall?

M.V.S. Seshagiri Rao: No, Baytown can stand on its own. We do not think there is support, which is required from India other than the capex, which I talked about, the $25 million. Similarly, Acero Junction, right now, the market is very subdued. So we are looking at how the market develops once it opens up from June month. So once the order book improves, I think Acero also can stand on its own that is how we are seeing. There may not be a big support they are looking from India for this year.

Abhijit Mitra: In general, what our experience has been in the past cycles also, even for the domestic set at least when this gets breached there does not seem to be much of an issue barring, probably some sort of increase in steps. But in general, just trying to understand the 15 million tonne, it seems a bit optimistic, given the current situation. So the Rs. 7,500 Crores of maturity it will have to be refinanced. I mean, that is the assumption that you are working with? Or how do you look at this sort of from a cash flow requirement side over the rest of the financial year?

M.V.S. Seshagiri Rao: When we say we are not looking at increasing the debt and Rs. 9,000 Crores we incur capex that means Rs. 7,500 Crores we will refinance. We are looking for refinancing. There are lenders lined up for that. So that is why we are confident that we will be able to do it.

Abhijit Mitra: Yes. So the foreign debt proportion will increase, is it?

M.V.S. Seshagiri Rao: It could be any source. It could be local. Why you say only foreign? It is possible even to raise locally, which we are doing.

Moderator: Thank you. The next question is from the line of Gopal Agrawal from DSP Mutual Fund. Please go ahead.

Gopal Agrawal: I just wanted to understand the coking coal contract and how it is shaping up and how the lower price will start going in our P&L. So can you give us a timeline? And how much delta you can expect in the next fiscal year?

M.V.S. Seshagiri Rao: Jayant?

Jayant Acharya: Coking coal prices have now moved down. As you have seen, I think, in the last 1 month, coking coal prices have moderated. So this will start coming into our balance sheet or into our operations in the next quarter. So April-June, as I said, the coking coal cost for us will be flattish. So January-March and April-June will be similar, and the benefits will start accruing from July-September onwards.

Gopal Agrawal: How much is the quantum approximately you are expecting?

Jayant Acharya: I think we can ask Pritesh to get back to you offline.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, that was the last question. I now hand the conference over to the management for closing comments.

M.V.S. Seshagiri Rao: Last year out of total sales, which we have made of 14.9 million tonnes, we did exports of 3.12 million tonnes, and we have sold 11.78 million tonnes in the domestic market. So when we give the guidance of 15 million tonnes again in this year, export proportion will go up because first quarter, we have to rely upon more on exports. We will assume that it will take a little longer time for the Indian market to come back to the demand, normal demand, and then we can continue to do more exports. But what is very important here is supply side also; there is a lot of constraints. You are looking at only demand side. Supply side, if you are looking, there are very few players who are able to operate the plants the way we are doing and then meet whatever demand that is there in the marketplace. So that gives a space for us to sell in the domestic market, whatever limited demand that is there, balance, we will be able to do export, that is how we are looking at. In this year, the second major advantage which will come, the falling coal prices. As we mentioned, the consumption average C&F,

which has gone in the last quarter was 141. The benefit of coking coal fall may not come in this quarter, but which is the next quarter. There is a significant fall in the prices that would come in the second and third quarter going forward. Similarly, iron ore prices fall 2 times, so prices have been reduced, total Rs. 900 plus another Rs. 50, Rs. 950 is the reduction, which has happened. So reduction in iron ore prices will happen. Cost side, there are lots of efforts, which we are taking. If you take our entire commercial buying which we are doing, at least 10% to 15% we are focusing to reduce the cost in that. The third area is fixed costs. Whatever fixed costs we have, administration plus salaries, outsourcing costs, all this together, we are also aiming to reduce by 10% to 15%. So there is a huge amount of effort on the cost side. One is push the volumes, second is reduce the cost, third is increase the captive sources of iron ore and the third is improve the product mix. That is the last one which we are working on. With that, we are confident that we will be able to achieve the guidance which we have given in terms of production volume and sales volume. In regards to overall balance sheet leverage is concerned, our effort is not to increase the overall leverage, and we will try to maintain within this. When we say Rs. 9,000 Crores capex and there is a repayment of Rs. 7,500 Crores, so to that extent if we can do the refinancing, which we are already confident that we will be able to do, actual cash flow required for the capex is only Rs. 1,500 Crores, Rs. 9,000 minus Rs. 7,500 Crores of new debt, which will come in, old debt gets paid. So that is how we are planning to do for this year. So leverage, I do not think it is a big concern to manage this. If at all any M&As have to be done, either Bhushan Power & Steel or Asian Colour, there are only 2 things left, that I think it will take some more time. By that time we will work out a structure, how it can be done. Thank you.

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