"JSW Steel Limited Q4 FY21 Earnings Conference Call"

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MODERATOR: **MR. ASHUTOSH SOMANI – JM FINANCIAL**

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY'21 Earnings Conference Call of JSW Steel Limited hosted by JM Financial. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ashutosh Somani from JM Financial. Thank you and over to you, Mr. Somani.

Ashutosh Somani: Thank you, Rutuja. Good evening, everyone. Thanks for joining in for JSW Steel's 4QFY'21 Earnings Call. I hope you and your loved ones are keeping safe and in good health. Firstly, I would like to thank the management for giving JM Financial an opportunity to host the call. I would now hand over the call to Ashwin Bajaj – Group Head, Investor Relations to introduce the management and take the call forward. Over to you, Ashwin.

Ashwin Bajaj: Thanks, Ashutosh and thank you for hosting the call today for us. Good evening, ladies, and gentlemen. This is Ashwin Bajaj and it's my pleasure to welcome you to JSW Steel's Earnings Call for Q4 & FY'2021. We have with us today the management team, represented by Mr. Seshagiri Rao – Joint M.D. and Group CFO; Dr. Vinod Nowal – Deputy Managing Director; Mr. Jayant Acharya – Director, Commercial and Marketing; and Mr. Rajeev Pai – CFO of the Company.

We will start with "Opening Remarks by 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 all of you. I welcome you all to the "Briefing of our Financial Performance for Q4 FY'2021." We are in the midst of second wave of COVID-19. This time that has a serious effect on the lives of several people in India. The company has been playing a major role in supporting the communities and the nation and is one of the largest contributors of oxygen supply and we are supplying almost 1,200 tons of medical oxygen per day. We have also set up oxygenated hospital beds in a record time with 1,000 bed Jumbo hospital at Vijayanagar, and a 100-bed hospital at Dolvi, to be scaled up to 500-beds. So that way we are trying our best to ensure that whatever we can do to get out of this problem in supplying medical oxygen to the needy people, we are doing major focus.

As we have seen in the last year, the way we have commenced the financial year under tremendous constraints following the first COVID pandemic, we have seen worst contraction in the known history, dislocated supply chains, major slide in demand, complete uncertainty. But within a short span of time, because of the charge by China, where they have recovered early, and they have announced a series of measures to resurrect their economy, their 14th five-year plan, they put a growth rate of 5.5% and $750 billion each year growth and a $550 billion for stimulus. So they recovered very-very well. In support of Chinese initiatives, there are series of measures that have been taken by various countries, that all led to a V-shaped very faster recovery in steel demand and economic growth all over the world including India.

As far as India is concerned, where we have seen a drop of almost 57-60% demand in the Q1 where the demand was only 12 mt. In Q4 the demand went up to 28.9 mt, that itself shows that recovery was much-much faster than everybody anticipated.

Coming to the Q4 2021:

JSW Steel has delivered good results, 4.1 mt of total crude steel production showing a growth of 6% year-on-year, for the year as a whole it was 15.08 mt, is 99% of our revised guidance of production of 15.2 mt. If you recall, in the last call, we mentioned that we will not be able to make up what we lost in the Q1, so 16 mt of production guidance, we have reduced it to 95% of that, which is approximately 15.2 mt. If I compare with 15.2 mt, we have achieved 15.08 mt of production which is almost 99%. Our consolidated sales were 4.06 mt which is a 11% growth year-on-year and for financial year it is 14.95 mt which is again 99% of our guidance of 15 mt. We are as per the guidance in terms of sales and as per the revised guidance in terms of production.

What has contributed in the last year to achieve the guidance is that exports in one quarter it went up as high as over 30% and in the following quarters we brought it down as low as to 13%, in the last quarter again we increased to 25%. If you look at the January and February in the beginning, there was some slackness in the demand, particularly during Chinese holidays, during the time we increased our exports. So whenever we are seeing some domestic demand slackness, the export markets are doing extremely well, we have supplemented the exports with the domestic offtake. For the last quarter, our exports were over 1 mt which is constituting 25% of the total consolidated sales. Over and above that, value added steel products that is also one of the very-very important element in achieving this volumes, so it increased by 37% year-on-year and around 5% on quarter-on-quarter basis which constituted 59% of the total sales in the last quarter.

NSR has gone up by 39% year-on-year basis and 19% on quarter-on-quarter basis:

Costs also have gone up. If you look at iron ore April '20 versus March '21 it has more than doubled, so that got reflected in terms of overall increase in cost, notwithstanding the lower coking coal prices during the year. The cost of production went up by 12% on year-on-year, 10% on quarter-on-quarter.

The EBITDA per ton on a standalone basis is Rs.19,756 per ton which is 32.9%. On a consolidated basis this EBITDA/t went up to Rs.20,792 per ton, there is a substantial increase in EBITDA per ton. The Standalone EBITDA number is Rs.8,021 crores and there is an exceptional item of Rs.386 crores in the standalone numbers and Rs.83 crores in the consolidated numbers which is on account of impairment towards loans given and also the interest receivable from overseas subsidiaries. With that, the profit after tax for the standalone company was Rs.3,931 crores.

As I was mentioning the domestic subsidiaries like Coated, ACCIL, Vallabh Industries, VTPL, Industrial Gases, all have done exceedingly well. In the quarter they have contributed Rs.822 crores vis-à-vis Rs.227 crores in the Q4 of last year. So there is a huge amount of turnaround in the domestic subsidiaries.

Just to complete, domestic subsidiaries performance for the year was Rs.2,132 crores as against Rs.1,038 crores in the previous year, it is doubled as far as domestic subsidiaries contribution is concerned.

Overseas subsidiaries in this quarter, excluding one-off items had an EBITDA loss of Rs.164 crores. If I add the one-off items the reported EBITDA loss was Rs.322 crores. The overseas subsidiaries remained a drag even in this quarter but what is encouraging is that in the month of March, when we restarted Ohio and Baytown, it was the first month where it was a positive EBITDA. It started only in March quarter as a whole, still there was a negative EBITDA in the overseas subsidiaries.

Considering the domestic subsidiaries good performance and certain losses in the overseas subsidiaries, net-net including the consolidated adjustments for the Q4 the contribution in consolidation is Rs.419 crores plus in the EBITDA number. With that, if I look at consolidated EBITDA was Rs.8,440 crores showing a growth of 184% year-on-year basis. Quarterly profit after tax was Rs.4,104 crores on consolidated. Yearly number for FY'21 total profit was Rs.7,786 crores.

These are our financial numbers:

We have completed as you know acquisitions of Bhushan Power & Steel, Asian Color Coated, Welspun plate mill in the last year. BPSL turnaround is going on. After we took over on 26th of March 2021, we have focused majorly on two areas how to reduce the cost of production which appears to be 15%, 20% higher than what it should have been, for which there should be some capex to be committed, so we have committed that capex to the extent of around Rs.850 crores, so that is being spent, in the next 12-months' time, we will be able to reduce the cost of production in Bhushan Power & Steel through various measures there.

The second area is that the overall capacity of Bhushan Power & Steel is currently working around 2.7 mt. So we have to increase the capacity with a limited amount of capex which is approximately Rs.700-750 crores. This again we have committed there. This will take the capacity to 3.5 mt. So with Rs.1,550 crores of capex, we will be able to reduce the cost of production and we will be able to increase the capacity to 3.5 mt, which will get completed between 12 to 18 months' time.

Another thing is whatever cash that was available in the company, out of that Rs.1,800 crores prepayment we are doing is against the loan that we have raised in the target. Rs.10,800 crores of debt are being reduced to Rs.9,000 crores.

Asian Color Coated again is a turnaround story; it has done exceedingly well; it has shown Rs.130 crores EBITDA in the last quarter. Welspun, we are just completing the transaction. Even though the agreements were signed, the payments were going in last month, so once the payments go there, then we will work on how to turn around as far as Welspun plate and pipe mill is concerned.

The total debt of the company as on 31st March '21 was Rs.52,615 crores which was lower by Rs.858 crores compared to the debt as on 31st March '20. But what is interesting here is debt of Rs.52,615 crores, after the cash outflow of Rs.15,000 crores. This Rs.15,000 crores consist of Rs.8,233 crores on the capex and Rs.1,550 crores on acquisition of Asian Color Coated, Rs.5,212 crores on acquisition of Bhushan Power & Steel. So after spending this Rs.15,000 crores, our debt has come down by Rs.858 crores. There is a good deleveraging as regards to debt. Average debt cost has come down to 5.83%, almost 41 basis points over last year. Debt-equity is 1.14, debt-to-EBITDA is 2.61, our acceptances on revenue account is $987m, acceptances on capex account is $558m.

Coming to ongoing projects, at Vijayanagar, we have commissioned 8mtpa Pellet Plant, we have commissioned wire rod mills, we have commissioned CGL-2, we have commissioned PLTCM, these are the projects which we have already completed and are working now. The coke oven plant, the CGL-3, these are the two units which will get commissioned during this financial year.

Coming to Dolvi, the pellet plant has already been commissioned, coke oven plant expansion-1 battery has already been commissioned and working. HSM, we have already commissioned, and the slabs have been rolled out to plates, so balance work is going on in the Hot Strip Mill (HSM). Only two major units where there is a work for 45-days to 60-days on the blast furnace and the melt shop. Had the second COVID wave is not there, we would have completed, and this should be up and running by this time. But unfortunately, second COVID wave has made many of the workers again leaving the site, there were 18,000 workers in March who were working there, now it has come down to 7,000 people as far as the strength of people working there. At the same time, the foreign supervisors, equipment suppliers who were present at the site, all of them have left. Now, they are giving online assistance and support to us. But we have to get back the people who left. We expect that they will come back in a month's time once the number of cases is coming down, vaccination increases, we expect the positive outcome here, they will come back and restart the work. Once they come back, we expect within two months' time we will be able to commission entire integrated operations. So instead of commissioning on 1st of July, it is getting postponed by a quarter, so it will be 1st of October we will be able to commission the Dolvi expansion fully. Downstream, all the units have been commissioned except in Tin, CAL and CGL line, balance all have been commissioned and working in the downstream.

If I look at the capital expenditure, that is pending on all these projects together is around Rs.22,350 crores which also include some new projects which we have taken up as a part of expansion here. The two important projects which are here as a part of this Rs.22,350 crores are Rs.380 crores of capex at Vijayanagar to increase the hot metal capacity in the Corex-1, Corex-2, BF-1, BF-2 which are operating, we wanted to increase the hot metal capacity where additional capex we are incurring there and also in the melt shop. Basically, BF-III shutdown which we have planned is not being taken in this year. So to supplement the loss of hot metal which could have come from completion of BF-3, those small amounts we are spending to increase the hot metal capacity, thereby the commissioned facilities of wire rod and pellet plant we will be able to use at Vijayanagar. Over and above that, the coke oven plant, which is there at Vijayanagar 1.5 mt, by spending another Rs.800 crores we will be able to expand to 3 mt, that will meet our incremental requirement for another 5 mt of capacity. That is why we took a call to include another Rs.800 crores and increase the capacity of the coke oven plant from 1.5 mt to 3 mt at Vijayanagar. Including these items, the outstanding capital expenditure on existing projects is Rs.22,350 crores. Over and above that, the way is working, in fact, cash generation that comes with operations, out of that we have given a policy of 15% to 20% of our consolidated profit we distribute as a dividend, the balance amount, the main focus is on growth. If you see the track record of JSW Steel, we have been spending on capex, is a countercyclical investment, when we are downturn, we start investing, that is why our capacity expansion at Dolvi is coming at the right time when markets are looking up.

Similarly, if you look at next three, four years' time, we expect there will be a mismatch in the growth in demand versus the supply that is coming into the market. It is the right time to commit further investment particularly Brownfield expansions. So with the improvement in iron ore supply, we feel that we should immediately commit the Brownfield expansion by another 5 mt at Vijayanagar. Even though we have given three years' time, we should be able to do much faster. So there is an additional capex of Rs.15,000 crores for 5 mt expansion at Vijayanagar. Over and above that, what we have observed as far as Orissa mines are concerned, even though all the ore mines have been commissioned and also nine mines at Vijayanagar, what we have seen during the operations is it there is inefficient MDO operation, number one. We can replace it if we can make investment on the mining equipment, then we can reduce the cost, improve operations, that is one. Number two is that the quality if we can reduce a bit of alumina and increase FE, then the productivity at the plants will go up substantially. Therefore, we have to create washing facilities and some grinding facilities at mines. If we do that, then there is a significant improvement in quality with resultant benefits at the plants. So with that, we wanted to commit that capital expenditure at the plant. Over and above that, digitization plus other infrastructure facilities, altogether we are committing Rs.3,450 crores for the Orissa mines.

Similarly, in Jammu and Kashmir, there is a state where a lot of incentives are being given and we are supplying our downstream products in that state. So we are committing Rs.100 crores to set up a color coating line there. Then in the last year, we have not committed any normal capex or any special projects, so we are committing Rs.6,565 crores towards normal capex and special projects and rolls during the year. All these together is approximately coming to another Rs.25,200 crores, the total capex is Rs.47,500 crores. Out of this Rs.47,500 crores, in this year, we will be spending Rs.18,245 crores as the capex

Here, I would like to guide is that our Net Debt-to-EBITDA, we have been saying that we would like to maintain at 3.75:1. But considering the kind of cash generation, that is coming from existing operations and the new capacities that are getting commissioned in this year, we will be able to internally have a target of bringing it down to 2.75:1, that is how we are working as far as Net Debt-to-EBITDA is concerned in spite of additional capex commitments that have been made.

I am also happy to share with you that today our board has approved subject to approval of shareholders a dividend of 650%, Rs.6.50 per share which is working out to 20% of the consolidated net profits.

Coming to the next year, what is that we would like to give the guidance for production and sales? For the production, we will be achieving 19.5 mt for JSW Steel and its subsidiaries. The way we break out this 19.5 mt is from existing installed capacity of 18 mt,. if we commission our Dolvi expansion by 1st of October, we expect at least 1.5 mt from our Dolvi expansion and 1 mt from our integrated operations from Mingo. All these three together we will be able to deliver 19.5 mt total crude steel production as against 15.2 mt of last year, so a 28% growth. But there are two more companies which are significant. They are on the joint control of the company. Even though they are technically not consolidated with the company, but to give you an idea, that if these two companies production and sales numbers are included at JSW Steel group, what would be our total production and sales guidance for the year will be 22.94 mt will be the crude steel production guidance including Monnet and Bhushan Power & Steel.

Similarly, sales numbers if I can spend a little more time here, our sales guidance for JSW Steel and subsidiaries is 18.4 mt, the breakup is 16 mt from JSW Steel, 1.4 mt from Dolvi expansion and 1 mt from Mingo, all three together is 18.4 mt. And other two joint control companies if we add, then the total will come to 21.63 mt. So the production guidance for JSW Steel Group is concerned, 22.94 mt is production and 21.63 mt is sales.

Then we are seeing some impact on account of second COVID wave. The demand was lower in the month of April with 6.8 mt which was much lower than March. This is continuing even in the month of May. In order to supplement whatever slackness in the domestic demand, we have increased our exports so that way overall we are doing reasonably okay.

What we expect going forward is this massive pent up positive savings which are ready to be spent, rapid deployment of vaccines, containment of virus, expanding stimulus, low interest rates, dollar weakness, accommodative monetary policy, government-led infrastructure spend which is commodity-intensive, China Plus One and Chinese policies announced at different points of time, these are all very positive for good global growth and also positive for the commodities and steel is how we see. In India, we expect the steel demand to pick up the way we have seen in the last year once second COVID wave subside and vaccination drive increases, the demand which was 94 mt in the last year, in this year we expect to be around 110 mt. World Steel Association is talking about 106 mt, but we are little optimistic than what steel association, it will be in the range of 110 mt. The incremental demand over previous year will be in the range of 16 mt.

With this, I invite you to ask any questions or clarifications. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Sumangal Nevatia from Kotak Securities. Please go ahead.

Sumangal Nevatia: Sir, first question is with respect to our BPSL acquisition. Given its a substantial acquisition, if you could just give some more detail as far as what would be the accumulated cash flow at the time of acquisition, recent profitability run rate, the EBITDA or something? And in few years, do we have plan to fully acquire the partner stake and what would be the structure in that case?

Seshagiri Rao M.V.S: As far as BPSL is concerned, on 26th March 2021, the acquisition was complete, so we hold 49%, another company in JSW group holds balance 51%. And as we have been guiding the market that consolidation would happen, it is only equity consolidation. The way our track record is as and when we acquire financially stressed companies, we keep it a separate SPV and then we turn around and then bring it to the fold of JSW Steel. The story is similar even in the case of Bhushan Power & Steel. The second point is as regards to the operations of Bhushan Power & Steel is concerned, we have given the guidance of Bhushan Power & Steel and Monnet together. To be more specific on BPSL, out of this guidance the production number of Bhushan Power & Steel for the year is 2.8 mt for FY'22 and the sales number is 2.6 mt. That means we will be operating the Bhushan Power & Steel at 100% capacity; capacity is 2.7, we will be operating fully. So this will positively contribute definitely. Number two, as far as cash balances are concerned, as I mentioned to you, those cash balances are being used for capex which is

Rs.1,550 crores of this and also we have committed Rs.800 crores of repayment, which is done today, so with that the net in Bhushan Power & Steel is coming down from Rs.10,800 crores to Rs.9,000 crores.

Sumangal Nevatia: Second question is with regard to our capex plan. This Rs.3,500-odd crores spent towards mining is quite a substantial one. Is it possible to share what kind of cost improvement or returns are we expecting once we complete this capex, maybe in terms of iron ore cost improvement or steel overall cost reduction?

Seshagiri Rao M.V.S: Rs.3,450 crores which we are committing, the payback period is in the range of our years. So that is the kind of upside that would be available. On a conservative estimate, payback is four years. So this will make a huge change in terms of productivity improvement, with regards to alumina, Fe improvement plus the overall production improvement. This is a game changer as far as the overall mining is concerned in this format.

Sumangal Nevatia: Does it include slurry pipeline as well?

Seshagiri Rao M.V.S: No, it doesn't include slurry pipeline. It is only at the mines we are spending this money to improve the quality, digitization and also to do the mining on our own by buying the mining equipment to replace MDOs over a period of time.

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

Pinakin: Sir, I have two questions. My first question is on the Vijayanagar expansion of 5 mt. Supposedly, Supreme Court cap on the iron ore which can be mined in that particular state and previously there were some regulatory issues in terms of getting approvals to expand the 5 mt, so where do we stand at this point of time on the potential cap of iron ore mining in Karnataka and the various regulatory issues were there?

Seshagiri Rao M.V.S: Total iron ore cap as you know is already increased to 35 mt plus over and above this 35 mt, that will come out of the auctioned iron ore mine is in excess of that. That means Category-C mines which have been auctioned, whatever production that comes out of that will be in excess of 35 mt. So that is approximately another 10 mt. So that 35 mt plus 10 mt it is 45 mt of total available iron ore. So considering this availability of iron ore, over and above that there are some more auctions of either Category-C or some regional mines are expected. In time, applications have been made which are pending in the Supreme Court to remove this cap and also to take up the auctions. These auctions were introduced in the year 2012 where there was no automated infrastructure or internet facilities, that is why the problems came in, now they have been set up, there is a representation that have been made to the Supreme Court, hopefully something would happen. Even assuming that, that will take some more time, so there is a 45 mt total availability of iron ore including the Donimalai mine which is recently started.

Pinakin: Sir, my second question relates to the P&L going forward. So there is a line item of mining premium and royalties and that broadly is flat on the standalone basis of roughly Rs.3,100 crores. Now benchmark iron ore prices in India have surged over the last two months or so, so is it fair to assume this cost will increase materially for JSW for the coming months? And are the steel price increases that have been taken by the company enough to offset this cost, essentially trying to understand that should spreads move higher in the June quarter versus March quarter or will the cost inch up, the price increases?

Seshagiri Rao M.V.S: First, let us focus on iron ore. Iron ore prices go up. Yes, you are right, absolutely that this cost goes up, whether it is a captive or a non-captive. Then whether this cost can be passed on by way of increase in the steel price, it depends upon the market dynamics, the demand robustness in India and also global steel prices. In this particular quarter, whether it is possible or not, Jayant will clarify.

Jayant Acharya: So the global growth story continues to be strong. So international prices as you are aware are quite much higher. India currently is operating at a discount of 15% to 20% to the import prices. So 15% without duty and 20% with duty. That is the discounting rate in India as of now. So we have a potential to increase the prices going forward, but we will look at the market and take a view accordingly.

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

Amit Dixit: There are two questions that I have. The first one is essentially on capex intensity. If I look at it, almost Rs.47,000 crores of capex are being planned over next three years with reduced net Debt-to-EBITDA shown. So just to understand what kind of margin assumptions we are building in for next couple of years maybe because as we look at it the steel prices particularly what is happening in China, look to have taken a pause. So any color on the drivers for this kind of high capex intensity, could be very helpful?

Seshagiri Rao M.V.S: The way I think this Rs.47,000 crores capex one has to analyze is that Rs.22,350 crores which is there as on 31st March '21 on an ongoing project, creditors that also includes acceptances, so if I exclude the acceptances and the creditors, actual amount of capital expenditure cash outflow on the existing ongoing projects is only around Rs.13,000 crores. So that shows that we are in a very-very advanced stage of commissioning all the projects which we have taken up as a part of earlier caepx program of Rs.48,000 crores. So here the important point which one has to note is that the downstream, the EBITDA has doubled in FY"21. Similarly, the kind of cost reductions which will come from our coke oven plants and pellet plants is also quite substantial which can come into the company. And the 5 mt expansion at Dolvi, where the costs are much lower than the earlier 5 mt. If we take this into account, even assuming that there will be a correction in the steel prices, whether we will see the margin of JSW Steel has posted in the past in the downturn, it will be higher or not, structurally, it will be better than last downturn. Considering that into account, we are saying we will be able to incur this new capital expenditure program and then try to keep the Net Debt-to-EBITDA as an internal target of 2.75:1, we will be riding at 3.75. So that is how we are planning. So we are considering the correction with steel prices that may happen, that's normal for any cyclical industry, considering and structural changes that have happened in the company, that is very important to notice and factor then while projecting the company's future.

Amit Dixit: The second question is on production guidance that you have given. Given that what we have steel in FY'21, even if I take original guidance of 3 mt, I mean the current guidance is quite high and particularly with the demand being disrupted in this quarter because of COVID possibly the domestic demand, do you see any threat to the sales guidance/production guidance and what will be the proportion of exports that you would expect in Q1 and for the whole year?

Seshagiri Rao M.V.S: Production I will cover; sales Jayant will cover. As far as the production is concerned, one important change from last year to this year is that this Q1 in terms of overall drop in sales or production is as severe as that of last Q1, that is where we are better than previous quarter. The second point is the PP-3, that is pellet plant-3 of 8 mt capacity has been commissioned at Vijayanagar. So by using pellet replacing the lumps, productivity goes up. There is an additional benefit which will come in this year over last year. So 1 mt of production loss which has happened in Q1 of FY'21 will not be there in this year to that extent. #2 is the productivity gain on account of PP-3, that benefit will come. With that we will be able to achieve this guidance of 17 mt which we are giving here. This 17 mt production, sales number of 16 mt is achievable relative to almost close to 15 mt which we did in FY'21.

Jayant Acharya: On the global side, just to step back a bit, if you look back at the year 2020, China imported 23 mt of steel more than what they did in 2019 and they exported 10 mt less. So 33 mt of trade was vacated by China for rest of the world. Additionally, the rest of the world within itself, the regional trades resulted in a supply gap of about 11-12 mt. So we are looking at a 40-45 mt of gap in terms of inventory over the last year by virtue of supply/demand dynamics. If you look at India, last year the supply/demand, especially the pickup in the second half, the inventory was reduced by 5 mt. So, today when we are having a slightly slower demand in Q1, in spite of that we see the global demand will continue to remain strong. So any disturbances could come in India because of localized restrictions, lockdowns. We will be able to make up through exports. So the export quantum in this quarter may go up. We expect Q2 things to gradually stabilize in the domestic market. It should pick up then strongly thereafter from H2.

Amit Dixit: Sir, any ballpark percentage you would like to give for export in Q1FY'22?

Jayant Acharya: We would look at it from a perspective of the market at that point and take a view. This quarter I can give you an indication that for export Q1 is going to be more because one of localized restriction and second because of export opportunities. But I won't be able to give you a percentage number.

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

Indrajit: After the current expansion at Vijayanagar, where do we have the opportunities for further expansion including the Bhushan Power asset?

Seshagiri Rao M.V.S: Let's say today we are 12 mt at Vijayanagar, now, another million ton is possible by increasing the hot metal production at Corex -1, 2, BF-1, BF-2 and also SMS-1 for which we have committed Rs.380 crores capex, that is being done during the year itself, then it becomes 12-13, after that there is a 5 mt which is planned as a part of expansion for 15,000 crores. There are two important things here. This pellet plant already commissioned 8 mt. In this 8 mt there are surplus pellets after replacing the lumps that are being used today for existing operations. When we set up 5 mt expansion at Vijayanagar, we don't need additional central plant or additional pellet plant. The second is I also mentioned in my opening remarks that the coke oven plant capacity is getting increased from 1.5 to 3 mt. When we are increasing, we are spending only Rs.800 crores, but this will get commissioned in the next year. So this extra coke that is available will feed in fact the 5 mt expansion that would come in at Vijayanagar. So there is a part of the projects which are already commissioned and then the cost per ton will be much lower relative to any other Brownfield or Greenfield project. So then with this 5 mt expansion which will get commissioned by 2024, then this 13 mt will go up to 18 mt. After that BF-3 where we have not taken the shutdown, where another 1.5 mt can go up, it becomes 19.5 mt. So after 19.5 mt, is there any possibility of further increase or not, this is single location, largest steel plant that we have to take a call after evaluating the logistics, availability of iron ore at the relevant time, but today 19.5 mt expansion at Vijayanagar is visible.

Indrajit: And in Dolvi and BPSL, any further expansion possible?

Seshagiri Rao M.V.S: BPSL, as I mentioned to you, the expansion up to 3.5 mt is already committed. 3.5 to 5 mt is possible. So that we will evaluate over a period of time and take a call. But this plant can go up to 10 mt, that is possible. Dolvi is concerned, we will be completing in this year 5 mt. Dolvi the major issues relating to the huge plant is logistics. So we have to augment the logistics capacity. Thereafter it is possible to increase, but at this time logistics is a constraint, we are working on that.

Indrajit: A follow up question on Vijayanagar. So the announcement that we have made is only till the hot metal or do we have any downstream in the capex of Rs.15,000 crores?

Seshagiri Rao M.V.S: This Rs.380 crores include melt shop modernization, SMS shop and also the hot metal, but we already have wire rod mill, commissioned already 1.2 mt, so that capacity is available, so rolling is possible.

Moderator: Thank you. The next question is from the line of Vishal Chandak from DAM Capital. Please go ahead.

Vishal Chandak: My first question is with respect to the EBITDA per ton sustainability. We have seen that currently Rs.20,000 plus EBITDA per ton definitely is not sustainable and we have done a lot of cost saving projects plus downstream projects. So would it actually push up our baseline EBITDA from Rs.8,500 that we discussed a couple of quarters ago to maybe Rs.12,000 or so, is that a correct sustainable EBITDA assumption?

Seshagiri Rao M.V.S: Vishal, we don't give the guidance how much it would be in future, but what I have explained already is that in the past downturn we have seen the lowest EBITDA for JSW Steel. There are structural changes that have happened in the company; one is a big change in the product mix; second is lower cost of production either pellet, power plant, coke oven plant, which are getting commissioned, replaces the bought out items and also the integration of iron ore. All this together there is a significant reduction in the cost. All this will definitely improve the EBITDA, but we don't want to guide how much it would be over what we have seen in the past, but it would be better than what we have seen in the past in the downturn.

Vishal Chandak: Just a second question was with respect to the logistics arrangement at Orissa iron ore mines. Now, we understand that the long-term plan is to set up a slurry pipeline have a palletization plant at somewhere in Paradip or Vizag and then from there through the barges shifted to Dolvi and other locations. So would it be fair to assume that the entire capex for the mining expansion would be done within the act of JSW Steel or it would be through a third party or a group company as well?

Seshagiri Rao M.V.S: All the options are available. As far as setting up a slurry pipeline is topmost priority. But what we are really earmarking the capex is to improve the quality at the mine. That is the most important. How to reduce the cost of mining? How can we do the mining very efficiently? For that the capital is earmarked. The second step which we are doing is how to transport it more efficiently and regulate the cost. That is required but in this year we are not committing any capex on that.

Vishal Chandok: So till that point in time, we will continue to engage with the railways and shifting material through rigs only?

Seshagiri Rao M.V.S: Correct.

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

Abhijit Mitra: My question is again on the capex side and the volume roadmap that's creating. So just to understand if I sort of look only at Vijayanagar and Dolvi for the time-being, your capacity is moving to 30 mt over the course of next five years. Is that the understanding?

Seshagiri Rao M.V.S: At Vijayanagar, it will go up to 19.5 mt from existing 12 mt.

Abhijit Mitra: And Dolvi is almost at 10, so 29.5 mt and this should be..

Seshagiri Rao M.V.S: One should be in Salem.

Abhijit Mitra: This entire would be commissioned by what timeframe -- by FY'24, FY'25?

Seshagiri Rao M.V.S: Yes.

Abhijit Mitra: The capex for the same would be close to this Rs.50,000 crores that you have mentioned or what would be the ballpark capex if I am to sort of look at this capacity from here on?

Seshagiri Rao M.V.S: Everything is mentioned here, it is part of this Rs.47,500 crores.

Abhijit Mitra: And then we have additional 10 mt in Bhushan and then what is the sort of capacity possible in Monnet Ispat?

Seshagiri Rao M.V.S: In the Monnet, today it has the capacity of 0.9 mt. That is why we have guided in this year 0.64 production and sales 0.63. This capacity can go up to 1.2 mt that we are working on that, whereas in the case of Bhushan I already covered that point, in the case of BPSL today it is 2.7 mt, expanding to 3.5, that is what is committed as far as capex is concerned. Beyond 3.5, there are two phases: 3.5 to 5, 5 to 10. That we have not done any work as on date.

Moderator: Thank you. The next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.

Bhavin Chheda: This Rs.47,500 crores capex does not include overseas capex which will happen, right, how much would be that?

Seshagiri Rao M.V.S: Overseas capex what is left out is only the phase-2 modernization of the trade mill, that is 700-800 crores, that still we have not taken the call to commit that expenditure, but we will take a call during the course of the year.

Bhavin Chheda: You said FY'22 Rs.18,240 crores, so that includes maintenance capexor maintenance would be over and above this run rate?

Seshagiri Rao M.V.S: Rs.47,500 crores include maintenance capex, similarly Rs.18,240 crores include maintenance capex.

Bhavin Chheda: Last question on the overseas subsidiaries numbers which have been given in the presentation. What would be the guidance for FY'22 when there is a US and Italy as well as the plate mill turnaround, what is the current run rate?

Seshagiri Rao M.V.S: We have provided the guidance for Mingo, integrated operation in million ton production and million ton sales. We will be able to deliver that.

Bhavin Chheda: On the EBITDA positive?

Seshagiri Rao M.V.S: EBITDA positive which I mentioned already that US operations there were positive in the month of March, maybe positive for the entire financial year '22.

Bhavin Chheda: Similarly, for plate mill at Italy operations also, right?

Seshagiri Rao M.V.S: Italy operation also we are working on, even today still it has to turn around because of certain orders which we are waiting for our rail mill.

Bhavin Chheda: Asian Color Coated' s EBITDA, which is given in the slide, sir, this 100% subsidiary of JSW Coated, 519 quarterly EBITDA includes 130 or it excludes 130?

Seshagiri Rao M.V.S: It excludes.

Moderator: Thank you. The next question is from the line of Ashish Jain from Macquarie. Please go ahead.

Ashish Jain: I have two questions. Firstly, what are the plans for iron ore mine ramp up in Odisha and does the capex you have included, does that include anything towards that as well?

Seshagiri Rao M.V.S: Yes, the Rs.3,450 crores once we spend, it automatically facilitates to increase the production… once we do utilization of entire operations of mining, that will definitely increase the overall production capacity.

Ashish Jain: Sir, when is the increased production? Is it like based upon the benchmarking production that the earlier mine holders were doing or this is beyond that because in the past you have indicated that some of the mine's production can be ramped up too much higher levels in the medium-term?

Seshagiri Rao M.V.S: It is possible to do it. We have applied for increase in the overall environmental limit. So once that limit comes, we will be able to possible to increase but as on date there will be a requirement of 80% of the average production that has been done by earlier mine companies.

Ashish Jain: Secondly, the cost saving initiatives which you indicated like pellet plant, coke oven and the cost to iron ore, is it possible to quantify what it would mean from EBITDA per ton point of view or any other way if you can indicate that number?

Seshagiri Rao M.V.S: There will be definitely a reduction in the cost and improvement in productivity. That is not possible to quantify how much it would be on each of these initiatives.

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

Ritesh Shah: Sir, I have three questions. One is on macro for Acharya sir. Sir, can you help us understand if Sec.232 is reversed or Europe safeguard aren't expanded, what is it that can go wrong from a macro perspective, with respect to the current prices in Europe and US with India in context specifically the exports?

Jayant Acharya: From a US perspective, you are aware that India has anti-dumping trade barriers in various products. So to US from India is restricted for most of the products. So as far as Europe is concerned, Europe quotas are due for revision and the quotas revisions are expected in July. We are waiting for that to look at the outlook. But if you really see the pricing trend in Europe and if you see the inventory reduction which has taken place and the manufacturing activity is quite strong, we expect a more positive improvement on the quota going forward, but we need to watch the results. As far as the world market is concerned, I would focus on the Chinese side because China control on carbon emissions which has been announced and consequent production, moderation in various regions of China is expected to play out in the second half of this year, while the first half because of withdrawal of rebates, people have exported more. We expect a gradual reduction going forward. And their intent has been also indicated by the recent changes by reduction of export duty, putting export taxes on certain products which are less energy efficient and also trying to import some products where they have relaxed certain duties to basically improve energy efficiency within the system. So a much more disciplined approach from China I think will be a key factor going forward to stabilize the world price.

Ritesh Shah: I have two questions for Seshagiri Rao sir. Sir, first is I think on Bhushan, you indicated Rs.10,000 crores of debt reduction, that's a phenomenal number. Just wanted to understand the cash flow behind it if that's possible. And secondly, you have indicated in past that eventually subject to the profitability of the acquired asset, we will consolidate it, but would you like to give some number on net Debt-to-EBITDA or net gearing specifically for those assets when we can say that profitability is good enough and that is one we look to consolidate it to JSW Steel?

Seshagiri Rao M.V.S: I never said we have reduced by Rs.10,000 crores. What I said in the case of BPSL, outstanding debt in the company is Rs.10,800 crores. We are prepaying Rs.1,800 crores, thereby the debt comes down to Rs.9,000 crores, that is what I said. The second point w which you asked about equity method of consolidation. Only this result includes the proportion rate, net profit of Monnet Ispat but not BPSL, BPSL is only just five, six days, those accounts are not yet ready on the debt, that will be done in the June quarter onwards. The next point which you asked is "What is the profitability of these companies?" So we already guided about volumes. This is what we do generally, and we don't guide about EBITDA of those companies or EBITDA per ton. So similarly in the case of JSW Specialty Steel products, I don't think we will be able to guide about EBITDA number or any ratios.

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

Seshagiri Rao M.V.S: What we expect going forward is the second wave impact will get diluted this year, more and more vaccinations will be done and the recovery we are very sure that it will happen very quickly in India. So JSW Steel has not only completed good acquisitions in the last year and the expansion project also will get completed in this half year. So the kind of growth that would come in, in terms of volumes, production and sales are quite good from JSW Steel. Over and above that, a lot of efforts are going on to reduce the cost. There are two major important themes for this financial year – one is (ESG), Environment, Social and Governance side. We have put a clear roadmap, what is that we need to set a target for all the seven parameters that are required to be done on social and environment side. We are working very-very closely and monitoring them to ensure that these norms are achieved. And at the same time, on governance side, there is a complete automation of all the processes which we have here. That work is going on in a bit way in the company. Digitization side, we have done Wave-1, Wave-2 last year, Wave-3 is going on in a big way in this year. There are three important projects which we have taken up by entire logistics automation both inward, outward, and also intra-movement within the plant. Complete digitization and automation we are doing the process. The second project which we identified is the mining. Entire mining operation at Odisha is completely digitized, near the second area. The third is advance planning and control systems. This project we have taken up. This may not get completed in this year, but we are on it and in the next 18-months' time. These are the three very important projects that give a lot of benefits to the company. So this ESG and Digitization are the themes which we are trying to take up and work very hard on these two themes, over and above improving operational efficiency and completing the projects and turning around overseas operations and also the acquired assets and look for more and more growth opportunities in India. That is how we are seeing this year. As I mentioned to you, we expect a growth of steel demand in India to the extent of around 15% in this year. Thank you.

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