"JSW Steel Limited Q2 FY-21 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to JSW Steel Limited Q2 FY '21 Earnings Conference Call hosted by Kotak Securities Limited. As a reminder, all participants' 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. Sumangal Nevatia from Kotak Securities. Thank you, and over to you, sir.

Sumangal Nevatia: Yes. Thanks, Nirav. Good evening, everyone. Thanks for joining today for JSW Steel's 2Q FY '21 earnings call. I would first like to thank the management of JSW Steel for giving Kotak Securities the opportunity to host the call today. I would now like to hand over the call to Vishesh Pachnanda from Investor Relations at JSW Steel to introduce the management and take the call forward. Over to you, Vishesh.

Vishesh Pachnanda: Thank you very much, Sumangal. Thank you, Kotak, for organizing this call. A very good evening to all the participants. I am pleased to welcome you to the second quarter of fiscal year 2021 results call of JSW Steel. We have with us today the management team of JSW Steel represented by Mr. Seshagiri Rao, the Joint Managing Director and Group CFO; Mr. Jayant Acharya, Director, Commercial and Marketing; and Mr. Rajeev Pai, CFO. We will start with a few minutes of opening remarks by Mr. Rao, and then we can open the floor for Q&A. With that and without any further delay, over to Mr. Rao. Thank you.

Seshagiri Rao: Yes. Good evening, welcome you all again. We have started the quarter with the economic recovery contraction, comments coming in that contraction would be very deep and very, very large. But as the quarter progressed, the severity of contraction is becoming lesser and lesser. Actually we have seen IMF revising their global economic growth negative to 4.4% as against 5.2%, which they have given in the earlier. In line with this trend line, global steel demand also we have seen similar pattern. The demand recovery is uneven.

One side the $550 billion of stimulus package that has been announced by China. More than 50% was intended for industries where steel demand can go up. So that was quite positive. The result of that is Chinese steel production went up quite substantially, and their imports have increased also significantly. Their exports have fallen by 20%. So all led to very good consumption growth as far as China is concerned, which is not the scenario if I look at the rest of the world. So if I see the total production numbers in the first 8 months of the calendar year, rest of the world has reduced the production in line with the slow recovery in the demand, whereas China is concerned, increased the production during the same period.

So therefore, the recovery, what we are seeing, either in the steel demand or economic recovery is uneven, it is not even across all locations. China is doing extremely well, and at the same time rest of the world is very, very slow. Even the WSA short-range outlook, which they have released very recently, it is also anticipating that the 2020 calendar year, the steel demand will be lower by 2.4%, which is 42 million tonnes, whereas China steel demand growth will be 8%, which is 72 million tonne plus. But the rest of the world is interesting, that is 114 million tonne will be lower steel demand over previous year, that is 13% lower.

So it is also in line with supply adjustments. What is today bringing balance as far as steel industry is concerned, wherever demand recovery is slow, there the supply adjustment is very steep, in line with the recovery in the steel demand. Whereas, wherever there is a strong recovery like China, production also increased and their exports have fallen, and their imports have more than doubled. So because of these reasons, we are seeing a good recovery in the steel prices and the situation is expected to continue in this quarter and the next quarter, that is how we are seeing as regards to steel industry outlook is concerned.

In India, the business sentiment improved and there is a broad-based recovery across all the sectors we are seeing. There is a good traction we are seeing in the coated steel products, appliances, packaging, solar and also government-aided projects. This is also reflected by way of improvement in the consumption over Q1. In the Q1, the fall in steel demand was over 50%, whereas in the quarter 2, it is around 10%. So therefore, there is a good recovery even in the Indian steel consumption is concerned. In the light of these developments, if I look at JSW Steel, we have improved our capacity utilization to 86%, and we have posted crude steel production of 3.85 million tonnes.

We could have done much better than 3.85 million tonnes because of lack of iron ore supply from Chhattisgarh and also in Vijayanagar, logistics constraints in moving material from our own mines in Odisha, we suffered in improving the capacity utilization better than 86% in the quarter 2. The sales consolidated is 4.15 million tonne, which is also a significant growth year-on-year 17% quarter-on-quarter with 49% growth. But what is very interesting in the volume of sales, our domestic sales quarter-on-quarter went up by 2.5x. Our exports have been reduced to 28% of the total sales.

What is also interesting here is auto sales have gone up by 392% quarter-on-quarter and year-on-year, it went up by 33%. There is a good traction from the auto sector. Nobody expected this type of revival in the auto sector, even though commercial vehicle sector is still lagging behind, but we are seeing very good improvement as regards to off take by auto sector with the increase in sales of 33% year-on-year. Our special products and the other products where high margins are there, there the composition has gone up to 51% of the total sales, and it has gone up by 29%, quarter-on-quarter it went up by 100%.

So in this quarter, we have highest ever coated sales and highest ever appliances sales. And also there is a good traction from solar and other segments of the steel user industry. The NSR has improved by 11%, but year-on-year it is still negative by 2%. We have worked on the costs very hard. We have reduced our costs quarter-on-quarter by 5%, year-on-year by 11%. The margins on stand-alone basis, Rs. 10,141 per tonne as against Rs. 5,102 in the quarter 1. So there is a significant improvement of over Rs. 5,000 per tonne EBITDA. Out of that, Rs. 1,300 is contributed by cost balance by NSR.

The EBITDA on a stand-alone company was Rs. 4,176 crores, an improvement of 62% year-on-year. The profit after tax on stand-alone is Rs. 1,692 crores. The Indian subsidiaries have done well, particularly the coated, its EBITDA is Rs. 288 crores. It posted an EBITDA per tonne of Rs. 4,700, a significant improvement in the performance of coated, in terms of volumes, in terms of cost, in terms of NSR. ARCL and industrial gases, VIPL all did very well.

After adjusting consolidated adjustments and Ind AS adjustments, the Indian subsidiaries have net-net contributed Rs. 289 crores. As far as overseas is concerned, the losses have come down. If I take out one-off items, the cumulative losses for all the locations together in the quarter was Rs. 213 crores. There are one off items from Italy, where we have made certain provisions and also there are certain gains which have come in from U.S. operations, either settlement of disputed claims and also PPP program grants. Both together, if I take out the net benefit is Rs. 161 crores. So Rs. 213 crores loss and Rs. 161 crores of gain.

So net-net, there is a loss of Rs. 52 crores from overseas. So if I take the benefit of Rs. 289 crores from Indian subsidiaries and Rs. 52 crores negative from overseas subsidiaries, net-net, there is a contribution in consolidation, Rs. 238 crores. So the consolidated EBITDA, therefore, at Rs. 4,414 crores, which is higher by Rs. 238 crores. The profit after tax on a consolidated basis is Rs. 1,595 crores. In this quarter, we could reduce our inventory by 4,75000 tones.

We have released working capital in this quarter. Over and above that, there is an exchange rate benefit because the rupee appreciated. Both together, our debt is reduced by Rs. 1,635 crores. So the net debt was Rs. 52,892 crores as on 30th of September. Our debt to equity, debt to EBITDA, all the ratios have improved. As regards to projects, we are happy to share that the migrant workers who left because of the COVID, all have come back. There is a good momentum in the project implementation. In Dolvi, we are confident that we will be able to complete by March 31, 2021. Now there are more than 14,000 workers working at Dolvi.

At Vijayanagar also there is a good improvement in terms of workers coming back. We are happy to say that the wire rod mill of 1.2 million tonne has been commissioned, the trial runs are underway. The pellet plant of 8 million tonne capacity at Vijayanagar is very, very advanced stage. We will commission in this quarter. The other projects either downstream or Dolvi or other projects at Vijayanagar, so we are working on to complete as per the guidance we have given. The capital expenditure, cash flow basis, we have spent Rs. 4,411 crores so far.

As regards to our guidance of 15 million tonne sales, we are very confident that we will be able to achieve the sales volume guidance of 15 million tonne in this year. As far as the production guidance are concerned, we have lost 1.2 million tonnes in the quarter 1. We tried our best to recover part of that quantities in the Q2. As I mentioned, due to iron ore supply constraint, we could only achieve a flat production on year-on-year basis in the Q2. So we are making every effort to make up some of the shortfalls we have registered in the Q1, in the Q3 and Q4.

Therefore, on the production guidance side, there could be some shortfall to the guidance we have given at 16, but sales volume, we will achieve. The acquisition side, the Asian Colour Coated, in the NCLT, our resolution plan, it was pronounced in the open court that it was approved with some modifications. We are waiting for the detailed order. It is not yet uploaded. As and when it comes in, we study that and we will go ahead in implementing the resolution plan in the Asian Colour Coated. In the case of BPSL, it is posted for final hearing on 3rd of November.

So once the Supreme Court adjudicates on the matter, we will complete Bhushan Power & Steel. So this is how we are seeing as regards to Q3 and Q4. It appears the demand momentum is quite strong in the market. So the Indian economy, we expect to recover further, majorly the rural focused fiscal and monetary policies of the government. That should stimulate more and more demand from the rural segment in addition to the other sectors of the economy. So Q3 and Q4, our volumes, whatever we are guiding, we will be able to achieve. With that, I will close it here and any clarifications we can take.

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the line of Anuj Singla from Bank of America. Please go ahead.

Anuj Singla: So sir, first question is with regards to the steel price hike, which we have taken in the domestic market, would you be able to quantify what kind of hikes we have taken? There was news flow, there was a Rs. 2,000 hike in early October. Has it been absorbed by the market? And what kind of pricing recovery we can see on a sequential basis in the third quarter?

Jayant Acharya: Yes. So pricing, as we exited the September end, there was a gap between international prices and domestic prices. Domestic prices were at a discount to the international prices by about 5% to 6%. And in October, we have taken an increase. And by and large, that has got absorbed. As far as quarter 3 outlook is concerned, I think, while quantification at this point would be difficult, but what would be a positive is that the quarterly and the half yearly contracts are due for revision and increase. So that is getting finalized, automotive and other quarterly contracts. So that would be a positive as far as the pricing is concerned in this quarter.

Anuj Singla: Okay. Understood. And can you give a similar maybe guidance on the coking coal cost? What was the cost this quarter and next quarter? What can we anticipate?

Jayant Acharya: Yes. So coking coal cost, I think last time we had indicated that it would drop in the quarter 2 by $20, $25. So we have been able to be at around that level. And I think the numbers were close to $120-odd CFR level on a blended basis. And we expect that the coking coal has been a little volatile. You have seen the markets. It went up because of the blast furnaces, some of the supply chains restarting.

But again because of the Chinese restriction on Australian coal, business sentiments on the coking coal side took a dip, so prices have gone down. So it is going to be a little volatile. So we would say that in this quarter, the price range would be similar or rather, the cost would be similar to the last quarter.

Anuj Singla: And second question, sir, with regards to the iron ore mines in Odisha. While we have started producing there, like you mentioned, logistic constraints are still hampering our supplies from Odisha to our plants. Sir, what is the market feedback there? When can we expect that supply to ramp up? And do you see because of the supply issues in Odisha, is there an upside risk to the iron ore prices in the domestic market?

Seshagiri Rao: Shortage of iron ore is definitely perceived today by the steel industry. There are two reasons: One is production is lower in Odisha because all the 19 mines which have been auctioned, only 5 mines became operational today, balance still to become operational. Even these 5 mines, they are not able to ramp up capacity because of evacuation issues.

The existing mining companies have time up to 31st October to evacuate their material. Some of them are trying to get extension by going to the courts. We are not sure whether they will get the extension or not. So therefore, the iron ore shortage is a problem. The second issue is more exports of iron ore from India. Not only iron ore, even pellet exports have gone up quite substantially in the last 6 months. These two together is a problem which we need to manage.

Whereas we are concerned, we are ramping up the production and also trying to evacuate the material by direct shipping either to Dolvi or Vijayanagar instead of bringing it through a port. So that is making us to improve the supplies to our locations. If 31st October extension is not given, I think we will be in a better position in terms of evacuation of material from Odisha.

Moderator: Thank you very much. Next participant is Amit Dixit from Edelweiss Securities. Please go ahead.

Amit Dixit: I have a couple of questions. The first one is on the other subsidiaries. So is there I mean, can you indicate when I mean, overseas subsidiaries will be profitable? Or when do you see the performance improving from this level? That was the first question.

Seshagiri Rao: Yes. Please continue.

Amit Dixit: So I was just asking that when can we expect and what is the road map to the improvement of overseas subsidiaries profitability, particularly when we have seen that prices in Europe and U.S.

have also risen in this quarter. So do you expect these subsidiaries to be profitable in Q3? Or I mean, Q4, at least?

Seshagiri Rao: No. If you see the average operating losses from overseas subsidiaries are gradually coming down. That is one positive, which used to be Rs. 335 crores in the Q2 of last year. The number which I just shared with you is Rs. 213 crores without one-off items. So therefore, there is a significant reduction in the operating losses. We were expecting that the Baytown will do well at least in the Q4.

But unfortunately, there is again a change in law there. The imports from Brazil, they have restricted, the quota they have restricted. With that, the availability of slabs to Baytown had become a challenge for continuing operations. So we have taken the shutdown of Mingo for ramping up, which would come into production only in March 2021. So until the time Baytown had to depend on the imported slabs.

Due to these restrictions on the quota, so they are not able to get the slabs. So it is decided even Baytown would take the shutdown temporarily until Mingo comes in operation. So we have minimized the losses, both at Baytown and Mingo. So we will restart both of this in the month of March 2021. So we can see a good improvement in the operations side, starting from quarter 1 of next financial year. As regards to Italy, there also the operating losses are coming down. There is also we expect improvement in Q3 and Q4 over what we have seen in the Q1 and Q2.

Amit Dixit: Okay. Great. Sir, the second question is with respect to power and fuel cost in stand-alone operations. So if I see, that has gone down both sequentially as well as year-on-year. So I mean, what is the main driver of the decline in power and fuel cost year-on-year, sorry not sequentially, year-on-year. But if you look at per tonne basis, it has gone down. So is it I mean, what is the driver there? And is it sustainable, this decline?

Seshagiri Rao: No. Majorly, it is natural gas price. Natural gas prices have come down. If you see year-on-year basis, you must have seen the spot prices, the way it has fallen per LNG. So that enabled us to reduce the prices, particularly in Dolvi unit. Over and above that, the power cost is also lower because thermal coal prices have come down. So this has contributed for lower power cost and the lower gas prices, which is reflected by the lower power and fuel cost.

Moderator: Thank you very much. Next participant is Pinakin Parekh from JPMorgan Chase. Please go ahead.

Pinakin M. Parekh: Sir, I have two questions. My first question is, when we look at the steel market, there has been a bunch of price hikes between August, September and October. Now these will flow through at different points of time depending on 6 monthly contracts, 3 monthly contracts and spot.

On the other hand, coking coal has been volatile, but iron ore prices in India have been rising. So at this point of time, sir, how should we look at the steel spread, basically steel realizations minus iron ore minus coking coal cost? Would they improve in the third quarter versus the second quarter? Or would they deteriorate, given the lead and lag of the various cost and price impact?

Jayant Acharya: So from a price perspective and a cost perspective. So on a price perspective, I think, we mentioned that internationally, we were at a discount. The domestic prices were at a discount by end of September to the extent of 5%, 6%, which has been bridged by a price increase in the month of October. Second is that the contractual prices were both quarterly, half yearly automotive, appliances are all due for revision from 1st October. And that is in the process of getting closed.

Some have already been closed, some are in the process of getting closed. The price increases there also would be somewhere in the range of 10% to 12% on their existing price levels and product to product it may vary a little. So that would also be a positive coming in. As far as coal is concerned, I think, we mentioned that the cost of coal in Q2, coking coal as a blend would remain similar in this quarter by virtue of the volatility which coal has exhibited.

There is also a lag between the supply and the stock which is coming in. So we expect a similar level. Iron ore, I think, Mr. Rao has already mentioned to you that there is a constraint with respect to supplies there is iron ore shortage prices have gone up in the last two months. So there is some impact of the iron ore cost flowing into the cost profile. So I think the effort would be to maintain the margin, if not improve it.

Pinakin M. Parekh: Understood. And sir, second question is that it mentions 27% of iron ore requirement is now met by captive mines. So sir, can we quantify it? And can we, at this point of time, understand how much will this increase to over the next 6 months?

Seshagiri Rao: No, if Odisha evacuation is smoother, then we will be able to meet 100% of Dolvi and 100% of the Salem. That is what really difficult to guess today. But as a number, we can tell you that these mines are capable of producing 1 lakh tonnes per day. Whereas right now, it is producing between 40,000 tonnes to 50,000 tonnes a day.

Moderator: Thank you very much. Next question is from the line of Ritesh Shah from Investec. Please go ahead.

Ritesh Shah: Sir, my first question is on the recent bond issuances that we had. Sir, how should one look at that from a capital structure point of view? And are there any benefits on refinancing? Sir, if you could provide some color over here, that would be useful.

Seshagiri Rao: Yes. I think markets were opportune to raise this money. So we have tapped the markets and raised this amount of $500 million. So the intention is to use this money for various purposes, including CAPEX, reducing the debt and also to meet working capital requirements. So therefore, our effort is to maintain adequate liquidity in the overall balance sheet and also maintain our ratios. So the way we are guiding, around 3.75 in the direction we would like to move instead of saying which fund where to use.

Ritesh Shah: Sir, are we refinancing any debt on back of this? And are we having interest cost savings on back of this?

Seshagiri Rao: Interest? I did not understand the question. What do you mean by that?

Ritesh Shah: Sir, if we are refinancing the debt over here, is there any interest cost saving which is likely to accrue? Or is it more like from a liquidity point of view, we are just enhancing our war chest?

Seshagiri Rao: No, whatever rupee debt, let us say, we have raised at around 8.5%, part of that amount we have used for prepayment of the existing rupee loans. There, we have saved some cost. And the foreign currency which we have raised, if we have to invest that money temporarily, I do not think there will be an increase in the overall cost. It will remain more or less same.

Ritesh Shah: Sir, my second question is the net debt number, which we give in the presentation, does it include the Duferco advance supplier agreement. If yes, how much was the limit drawn on March-end basis? And how much is it on September-end basis?

Seshagiri Rao: This includes the advance drawn under APSS. So see, every month, we have to export and repay around $13 million, so that we have been doing by export of steel products to Duferco. So it gets reduced. I do not remember exactly how much was there on 1st April. How much was there on 30th September, but this is gradually coming down.

Ritesh Shah: Okay. Sir, last question. Any update on Moitra coal block?

Seshagiri Rao: Moitra coal block, not much progress because of the COVID-19 issues here, either in terms of approval or working on the ground. So these 6 months, we could not do much on Moitra coal. And again, now we are reviewing to restart the activity in Moitra Coal Mine.

Moderator: Thank you very much. Next question is from the line of Vishal Chandak from Emkay Global Financial Services. Please go ahead.

Vishal Chandak: Sir, my first question was with respect to the iron ore that we are bringing in from our Odisha mines. How do you see the cost differential between procuring from merchant miners in Odisha versus our own mines? What would be the difference largely on the landed cost basis at Dolvi?

Seshagiri Rao: So it would not be cheaper, Vishal. It is always expensive because our average premium we have paid for all the 4 mines together is 105%. So if market is 100%, I have to pay 105%. So therefore, I do not think if you compare landed cost-wise it will be cheaper, but it will give us the flexibility to operate the plants, either to source it high-grade or low-grade as the plant requires.

I think in this quarter, as an integrated plant, we were able to operate the units even at 86%. The strength is we have got these 4 mines. Otherwise, it was not possible. So therefore, it is the strength from that point of view. But the cost of production side, gradually over a period of time, it will give the savings. In the logistics cost, the way we bring in, the way we handle, the way we mine. But in the short term, I do not think it is less expensive compared to the market.

Vishal Chandak: Sir, in fact my next question was only with respect to how do we plan to reduce the cost over the long period of time? I know we have got slurry pipeline and pelletization lined up. But what are the time lines that we are looking at implementing these projects?

Seshagiri Rao: No, this 5% or 7% plus mining cost, which we are paying extra, our focus is how do we equalize at least to the market. In that regard, if we look at JSW Infrastructure, they have made their 18 million tonne iron ore terminal at Paradip Port operational. So earlier, we used to get the iron ore both from Dhamra and also Paradip Port. Because JSW Infra has set up all the facilities to handle large capacity, we did not go to Dhamra, and we can handle everything from Paradip.

So that is how we will be able to reduce, to some extent, the cost of transportation, port charges in bringing the iron ore, that is one. Number two is transporting iron ore from the mine to the railway siding. That is another area where we are focusing how to reduce that cost. We are working with transporters. We are working with others to reduce that cost. The third area is mining cost itself. We have given short-term MDO contracts right now. We are also getting experience in this area.

So we will work on reducing the mining costs further down. So this is short-term measures. If I look at long term, we wanted to set up a slurry pipeline to bring iron ore from the mine to the port. That will take time. But once we do that, I think, that is where the game lies. The logistics cost will come down drastically.

Vishal Chandak: Sir, at the port, do we also plan to set up a pelletization plant to further reduce the coastal movement instead of just looking at shipping iron ore fines?

Seshagiri Rao: No. Pellet plant already there at Dolvi and also at Salem, our sinter plant. Therefore, we are not planning any pelletization plant at the port right now.

Moderator: Thank you very much. Next question is from the line of Raashi Chopra from Citigroup. Please go ahead.

Raashi Chopra: Just going back to the iron ore mines. So given the logistic constraints, obviously, you cannot meet the 80% requirement. So against that backdrop, is there any sort of penalty? One. Second is that if the old miners do not get the extension beyond October, do you think they would want to expedite the sales, and therefore that kind of puts downward pressure on the iron ore prices?

Seshagiri Rao: As far as the question one is concerned, this 80% of the average production done by the earlier miner in the last 2 years. So if we take that amount, that time we have 12 months period, from the day we signed the mine development agreement. So within 12 months, we have to achieve that. So if I do an assessment today, we are reasonably confident we will be able to meet that commitment. The second question which you have asked is completely market determined pricing.

We do not know whether prices will come down or not. But logically, if I evaluate the total iron ore that is produced within Odisha by the merchant mining companies and where they were selling, particularly large buyers of iron ore from Odisha. Now some of them or majority of the large steel companies, they have got the mines in the auction. Therefore, they are not there in the market. So if supply is there in the market, then is there any off take to a big extent, to a large extent, that is to be seen what is going to happen.

More and more players may set up pelletization plants or DRI plants. It is very difficult to hazard a guess what is going to happen. But based on supply and demand dynamics, we feel that the demand, which was there earlier, now they have got the mines. So that demand may not be there in future.

Raashi Chopra: Got it. And just one more question continuing on steel pricing. So what percentage of your volume would get covered in these quarterly and the half yearly contracts? One. And second is, is there room to raise prices for the monthly contract going into November for flats and long separately?

Jayant Acharya: Yes. So our quarterly contracts, half-yearly contracts put together would be about 15%, 16%. And we have some other project fixed contractual till the project is completed, which would be another 5%. So maybe 20% on an overall would be this fixed price kind of contracts. Secondly, with respect to the question on November prices, I think it is difficult to say at this point of time.

We do see that internationally, the prices are positively poised. In China, also the prices are showing a slight uptick. But we would review the situation on ground and see how it is getting absorbed and then take a call.

Raashi Chopra: Just one last question. What is the acceptances figure?

Seshagiri Rao: Revenue acceptances 1,098 million as on 30th September, and the capital side is 441.

Moderator: Thank you very much. Next question is from the line of Chirag from DSP Mutual Fund. Please go ahead.

Chirag Sureka: Sir, I had a question on essentially the CAPEX and the debt levels that will be there going forward. Given that you have reasonable visibility over the next 2, at least 1 quarter and then hopefully, it will be good for the next quarter also. Where will the debt level move on an overall basis? I know you talked about debt-to-EBITDA you want to bring it down to 3.75. But the absolute level of debt, where will it be? That is what we want to know, sir.

Seshagiri Rao: No. As far as the capital expenditure, what we have planned in this year, I do not think debt level will go up considering the cash generation in the company. But what is uncertain today is about acquisitions, BPSL and Asian Colour. If these acquisitions happen in this year, there could be an increase in the overall absolute number. Even after that, whether we can manage to bring down to the level where we are comfortable with, that is 3.75, that is what the effort from the company.

Chirag Sureka: And any indication on how much debt would be there from JSW for BPSL in terms of the size?

Seshagiri Rao: That we will share the details once the transaction is to be closed. But as you know, there is a debt and equity structure. Debt is concerned, it will be raised in the target company without recourse to main company. Then the equity is concerned, that will be contributed in a manner that no consolidation will happen in JSW Steel.

Moderator: Thank you very much. Next question is from Bhavin Chheda from Enam Holdings. Please go ahead.

Bhavin Chheda: Sir, may I know volume breakup of the captive mines, which were at Karnataka and which were at Odisha during the quarter, I think you gave the overall 27% number. But sir, if you can break it up into volumes at Karnataka and Odisha?

Seshagiri Rao: Yes. I do not have the number separately for Odisha and Karnataka, and this will be given by our Investor Relations department.

Bhavin Chheda: Okay. And Karnataka, all the mines are operational or any mine is pending?

Seshagiri Rao: Eight mines are operational, expect one mine, that also will start in this quarter.

Bhavin Chheda: Okay. And the second one, sir, what would be the downstream capacity now after this acquisition?

Seshagiri Rao: You mean, Asian Colour?

Bhavin Chheda: Yes. Current capacity of Asian Colour is, I think, 0.3 million, right?

Seshagiri Rao: No. Asian Colour is 1 million, both the locations together.

Bhavin Chheda: Okay. And our existing would be how much after all the expansions which have already been completed?

Seshagiri Rao: Vasind, Tarapur, Kalmeshwar, these 3 units earlier was 1.7 million tonne capacity. That is going up to 3.6 million tonnes after completing the expansions in these 3 locations.

Bhavin Chheda: Okay. And what would be the time line of that, 1.7 to 3.6?

Seshagiri Rao: It will get completed by end of this financial year, excepting CAL line, which is 0.5 million tonnes.

Bhavin Chheda: So except 0.5, everything would be complete? And Asian Colour, 1 million will be fully operational or it would take time? So we would be almost ranging 4.5 after Asian Colour, right?

Seshagiri Rao: Yes.

Bhavin Chheda: Okay. So Asian Colour, 1 million, when you acquire, it will take time? Or do you think it is operational capacity?

Seshagiri Rao: It is an operating company today. Both the units at Haryana and also in Maharashtra, both are operating right now.

Bhavin Chheda: Okay. Sir, just last one, the Rs. 228 crores loss you mentioned in U.S., is it at Acero or, sorry, Rs. 228 crores gain. So is it in the U.S. plate and pipe mill EBITDA? Or is it in Acero EBITDA?

Seshagiri Rao: I mentioned all the numbers together. The overseas losses were Rs. 213 crores, okay? Then after that, there are certain provisions which have been made in Italy, and there are certain gains in the U.S. So net-net, Rs. 169 crores is the net gain. So Rs. 213 crores minus this Rs. 161 crores, net-net Rs. 52 crores is the loss from overseas.

Bhavin Chheda: Okay. And sir, plate mill, 17 million EBITDA is a sustainable number? Or again, there is a one-off in that number and it needs to be adjusted?

Seshagiri Rao: No, this one-off item is there. That is why it is positive, otherwise it was negative.

Moderator: Thank you very much. Next question is from the line of Prashanth Kumar from InCred Capital. Please go ahead.

Prashanth Kumar: Sir, two questions. The first one is on the downstream project and the cost saving projects that are underway. Assuming all these are completed and fully ramped up in FY '22. For FY '23, assuming a normal cycle, no COVID, what is the kind of positive EBITDA potential that these projects have, that you would have built into your numbers? If you could give a broad number is also fine, incremental EBITDA?

Seshagiri Rao: Number one, the incremental 5 million tonne capacity, which is coming up at Dolvi, because of the size of the blast furnace and the process which is involved, the cost of production compared to the existing 5 million tonne, it will be cheaper, at least by 15%. Then the second one is the cost savings, which can happen at Vijayanagar, one is coke oven plant, the second is pelletization plant. Pellet plant will replace the buying of lumps there.

So that differential goes on changing, but there will be definitely a savings on account of pellet plant. Number one, the differential between lumps and the cost of conversion of fines into pellets. If we compare both, they will be saving. Number two, overall productivity gains on account of use of pellets, in the process. This is the second, those gains are there. Then the coke plant, which is also starting in the next financial year, not in this year at Vijayanagar.

Because of that, the bought out coke is not required. Bought out coke means the coke which they are getting right now from Dolvi. When Dolvi completes 5 million tonnes, then there is no surplus coke that would be available from Dolvi. But the transportation, which they are incurring for sending coke from Dolvi to Vijayanagar, that is a saving which can happen at Vijayanagar when they have their own captive coke plant, which will get commissioned in the next year.

Prashanth Kumar: Broadly, any broad quantifiable number based on your internal assessment?

Seshagiri Rao: No, that number is very difficult. There are so many factors which goes on changing here. There is a potential, but it is very difficult to put one number there and say, this is the number we will achieve.

Prashanth Kumar: Sure, sir. My second question is sir, our iron ore mines that we acquired in Odisha have a mine life of about 40 years based on the numbers out in press, et cetera. Sir, if in 40 years, I think, we do not know where the steel market will be. What is the scrap availability? Will it be a totally scrap driven world, etc.So to that extent, is there any idea to front load a lot of that benefit now as in terms of either trying to export wherever there is an opportunity in pockets of time? Or either setting up some sort of a value addition, large value addition project there because we have a large capacity, 28 million tonnes that can produce and maybe you can even expand. Is there any idea, what is the thought process on trying to front load some of that benefits of iron ore into the earlier years? Is there any, if you could throw some light?

Seshagiri Rao: The first immediate priority for JSW is to ramp up the capacity of the iron ore mining in Odisha and see that we become self-sufficient in terms of Dolvi at 10 million tonne capacity and the

Salem at 1 million tonne, and any shortfall at Vijayanagar, we will be able to give from Odisha. That is how we would like to achieve in the stage 1. In the stage 2, the way you put it rightly, is that to optimize, to get the benefit of front loading if anything can be done. That is the second phase we will evaluate. So we would like to work in the short-term to medium-term to first to meet our requirements through captive mining.

Moderator: Thank you very much. Next participant is Amit Murarka from Motilal Oswal. Please go ahead.

Amit Murarka: Just two questions from my end. Firstly, on the pricing side, generally, what we are seeing is that the regional prices have actually softened since early September. I mean both the regional, the Chinese export prices and the domestic prices. So in that context, actually, the Indian prices, HRC prices seem to be at a premium as of now. So can this premium sustain? I understand the demand is strong, but can we sustain in this environment?

Jayant Acharya: Yes. So if you look at the Chinese prices in the last few weeks after the Chinese holidays, the prices have improved in the spot market as well as in the futures. Directionally they have moved up. The other thing which we need to consider is that international iron ore prices, which were in February, March below $90 CFR China, is now in the range of $120 CFR China. China being a very large importer, the ability for them the cost will basically prevent any drop in prices.

So therefore, I think, that is providing a bottom to the price. So today, if I look at it, I do not see a situation where international prices will correct. Yes, it would be range bound because supply disruptions in the world which has been in the range of about blast furnaces, about 132 million tonnes of blast furnaces were shut down due to the pandemic. Out of that, one-third has come back, but still there is a gap. If I were to give you just a material balance, it is expected that the rest of the world outside China, the production in this year will come down by about 100 million tonnes.

China has imported incrementally 30 million tonne more expected to import, if I take up to December, 30 million tonnes more than last year. And the exports are likely to be less by 10 million, 12 million. So there is a supply gap of 140-odd million tonnes. And if we look at the WSA forecast of the rest of the world demand, that drop is about 114 million tonnes. So therefore, there is a supply-demand gap, which is positively poised to maintain the prices on a positive trajectory.

Amit Murarka: Okay. Sure. And also on the auto contracts, like where are we in the process of finalization of those contracts?

Jayant Acharya: Some have already being finalized. Some are in the process of getting closed.

Amit Murarka: Okay. And these will be again 6 monthly basically for the second half?

Jayant Acharya: Yes. Most of the auto contracts are 6 monthly, yes.

Moderator: Thank you very much. Next question is from the line of Indrajit Agarwal from CLSA. Please go ahead.

Indrajit Agarwal: A couple of questions from my side. One, can I get a sense of the steel inventory in India currently, both at the steel mill level and at trader level, how is it compared to, say, June end?

Jayant Acharya: So the inventory, if I look at the JPC's latest numbers, the inventory in India has come down. I think as on September end, the drop is about 1.84 million tonnes as is reflected. It is also visible if you look at the import versus export and the supply deficit because of a lower production during the first half. So April to September, this is the kind of drop which JPC is reporting. So inventory has gone down.

But if I look at it from a producer perspective and the market information, which I see, production deficit in the country by about 21% in the first half, high level of export to the extent of about 11 million tonnes in the first half from India overall and a drop in imports by almost 50% has resulted in a supply chain inventory deficit. And the demand, in general, has gone up. So I think the inventory at the mill and the supply, the channels basically are at a very low level, below the comfort level.

Indrajit Agarwal: That is helpful. Sir, second, in the opening remarks, you mentioned that India consumption was down by about 9% YoY, whereas our domestic sales are up by more than 20%. So is that more like the product mix, the mix that we have been cross selling or is it more about we have been gaining a lot of market share of it?

Jayant Acharya: In this particular domestic we actually if you look at the longs and flats, even in India I think the flat drop was lower than the longs drop. So out of 9.9% Year-on-Year drop flats dropped by 6.5% and longs dropped by almost 13%. So what we are seeing during this period longs dropped primarily because of construction and infrastructure activities which were constrained because of social distancing and migrant labors moving out got impacted more than flats. So we had reoriented our product mix more to flats and that has been able to drive the differential growth between our domestic sales in India.

Indrajit Agarwal: One last housekeeping question. So about Rs. 2,000 crores upfront payment for the mines in Orissa, has that been entirely paid in the sense that is it reflecting entirely in our net debt number already?

Seshagiri Rao: Yes, it has been fully paid. Out of that Rs. 1,290 crores is towards premium. Balance Rs. 800 crores is towards stamp duties and other charges. So that Rs. 800 crores has been capitalized. This Rs. 1,290 crores is shown as an advance against the premium payable to the government. So that Rs. 1,290 crores as and when iron ore is produced and dispatched that will get adjusted.

Moderator: Thank you very much. Next question is from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.

Gaurav Rateria: Sir, two questions. Firstly, what is the amount of iron ore you need to produce from Orissa mines to comply with the 80% regulation?

Seshagiri Rao: If I recall correctly it is I think around 16 million tons to 17 million tons what we need to produce in a year, in 12 months period.

Gaurav Rateria: So this will be pro rata for 8 months?

Seshagiri Rao: It is not pro rata. As I mentioned to you it is in 12 months. It is not month-on-month.

Gaurav Rateria: And sir, secondly the other miners who are supposed to start the mining operations in Orissa if they do not start for the next three, four months do you think the situation will become there will be shortage of high grade iron ore in India and there could be some imports happening? JSW still be better placed but from an overall country perspective?

Seshagiri Rao: The overall country perspective, two things. One is whether we can moderate export of iron ore from India because 93% of the exports are going to China. And these exports are more than doubled. So therefore whether the government is realizing the need to moderate export of raw materials from India that we need to watch. Second is that the balance 19 mines minus 5 which are already started, whether they will start production thereby more can come in from there. That is the second.

The third is whatever mines that have started once the evacuation gets eased then production can improve. Then they can as well sell part of the quantities even in the market. Fourth point is Chhattisgarh NMDC mines today there are certain restrictions that those iron ore should be first made available to the steel companies within Chhattisgarh or sponge iron units. Only surplus can be given outside Chhattisgarh.

Whether some relaxation can come once production improves in the NMDC end. The production was affected because of the monsoon and rains. So these are four, five factors which is influencing demand and supply in Orissa and Chhattisgarh. Hopefully things will normalize going forward.

Gaurav Rateria: Okay sir, last question. With the restart of Donimalai mines at some point of time in Karnataka do you think there could be increase in the cost structure which would be passed on by the merchant miner to the company or the demand supply situation is such that it will be very difficult because Karnataka is an excess supply market?

Seshagiri Rao: Donimalai mine what we understood is that there can be a possibility of restarting the mine. There is some understanding between the NMDC management and the Karnataka Government. But it is yet to happen on the ground. So I think there will be some progress we expect to happen in Donimalai. With that things will normalize.

Moderator: Thank you very much. Ladies and gentlemen, what will be the last question for today. I will now hand the conference over to the management for closing remarks.

Seshagiri Rao: Thank you very much**.** And in this quarter things looking better with regard to the pickup in the overall economy and the steel demand. We are working on to neutralize the impact of increase in iron ore prices with cost savings and also improve our production volumes and achieve our guidance whatever we have stated. Then completing the projects is the next important target we have kept before 31st March 2021 majority of the capital expenditure program will get completed.

The third area we are focusing in this quarter is BPSL and Asian Colour if the proper judgments come in and we will be able to close this inorganic growth. With that by end of this financial year our 18 million tons capacity with the downstream expansion will become 23 million tons in terms of organic and another 3 million tons gets added because of Bhushan Power and Steel. So with that we will become 26 million tons company in the next six months with very large downstream capacities both color coated, galvalume, galvanizing with all those CRM complex getting commissioned.

Over and above what is also important is the cost saving projects in terms of power plant, in terms of pellet plant and part of the coke oven plant getting commissioned. These all will give a huge advantage to the company particularly in the next financial year. Thank you.

Moderator: Thank you very much. On behalf of Kotak Securities Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.