



“Jindal Steel and Power Limited Q2FY20 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day! Welcome to the Jindal Steel and Power Limited Q2 FY20 Earnings Conference Call, hosted by PhillipCapital (India) Private Limited. As a reminder, all participant lines will be in the listen-only mode. The participants will be allowed 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. I would now like to hand the conference over to Mr. Vikas Singh from PhillipCapital (India) Private Limited. Thank you. over to you, sir.

Vikas Singh: Good afternoon, everyone. Today we have with us Jindal Steel and Power's Management. So, without taking much time, I will hand over the call to Mr. Nishant Baranwal, Head, Investor Relations. Over to you, Nishant.

Nishant Baranwal: Thanks, Vikas. We welcome you all to our conference call to discuss JSPL's Second Quarter Fiscal 2020 Financial Results. From the management side today we have with us Mr. VR Sharma, our MD- JSPL; Mr. Bharat Rohra, our MD- JPL; and Mr. Deepak Sogani, our CFO- JSPL.

With that, I would request Mr. Sharma to begin with his opening comments.

VR Sharma: Hello. Good afternoon, everybody. The Q2 has been very good for JSPL in terms of the productivity. We observed an increased production of 16% as compared to the corresponding year, and also an increment of 10 % in sales. We had reached a level of about 1.58 million tons in India, and 0.41 million tons in Oman, when put together it is approx.2 million tons. If we take the run rate, then we are surpassing our expected production in a year. Further, we are planning 6.5 million ton of production in India and 1.8 million in Oman.

So, over a period of time, we have found that the company is doing well, especially in terms of production. However the EBITDA level came down from Rs. 11,300 to Rs. 9,400 a ton. This is primarily because of the fall in the overall steel prices in last quarter. Secondly, we always maintain coking coal, imported from Australia and Russia, in the pipeline for about three to four months as inventory. And the coking coal prices have gone down from \$210 to \$140 a ton. The impact of the lower prices will be seen in the Q3 and Q4. So, we will be in a position to enhance the EBITDA level in the Q3 and Q4.

The rail business also performed very well. We are meeting all our rail orders for Indian Railway and their subsidiaries on time. The structural business is also doing excellent,. so is Plate business. there has been pressure on the TMT and the rebar prices, which is known to everyone. But the good news is that in the last quarter we could export a substantial quantity..

If we compare with our competitors in the industry, the production level of our peer group is ranging from minus 3% to plus 6% in this quarter corresponding to the previous Q2, whereas our growth has been 16%. So, this is very good news. And if you compare as a whole, we are

still very vibrant in terms of the product mix. We are getting adequate orders for rails. We also started our much-awaited heat - treated rails which are now available and mostly acquired by the Government of India. We were also able to export more than..... We have also started getting orders from the Metro rails for the heat treated rails. The rails were heat treated to a particular temperature and for a particular physical and elongation properties to run the heavy-haul rails as well as the metro rails.

So this is the overall scenario. If you see the overall picture of the Angul plant, the plant has been doing extremely well and we will be in a position to produce ...in Angul , and ...in Raigarh this year. So, total put together, it makes 6.4 million tons. That is all from my side. Thank you very much.

Nishant Baranwal:

Now I request Mr. Bharat Rohra, our MD, JPL, for his comments.

Bharat Rohra:

Good afternoon, gentlemen. The second quarter of Jindal Power's performance has seen a slight dip in the performance. In fact, the second quarter of any financial year for the last few years, we've seen that the power plants, showed very weak results because of the effect of the monsoons reducing the coal availability. Also, the demand for thermal power goes down, because the market of hydro picks up.

This quarter experienced very heavy rains and a number of mines were shut down due to flooding. In other mines also, the production went down drastically, as a result of which supply under FSA have been highly delayed for August and September. However, JPL made alternative arrangements by importing coal and purchasing coal from various traders to meet its obligations of power under the PPAs. Based on these arrangements, we have managed to maintain the supplies as per the PPA to Tamil Nadu, Kerala, and Chhattisgarh. so, the PPA requirements have been met. However, exchange sales have gone down due to poor rates on the exchange during this period.

When I come to the comparison of the turnover and the figures, the turnover on a year-on-year basis has seen an increase from Rs. 911 crores to Rs. 947 crores, and on a QoQ basis it has seen a decrease from Rs. 1,114 crores to Rs. 947 crores, that is down by about 15%. EBITDA on a year-on-year basis has marginally decreased by 1%, from Rs. 302 crores to Rs. 299 crores and quarterly it has decreased by 17%, from Rs. 360 crores to Rs. 299 crores, primarily due to lower generation. The comparison of turnover on a half yearly basis has seen an increase from Rs. 1,879 crores to Rs. 2,061 crores, up by 10%. And the EBITDA on a half yearly basis has increased by 7% from Rs. 616 crores to Rs. 659 crores. So, as a summary, the performance has been flat.

In the sector, we have been talking about stress in the power sector. And we all know that whenever there is a disease, it takes a lot of time to cure. And so is the sector, it's such a regulated sector that, the stress will take quite some time to be eliminated. The government has taken a lot of measures, but the results of those are still far from showing any relief. In

continuation of the government's steps, they had come out with directions to all states and DISCOMs to buy power only with the proper security mechanism in place. The order issued in June 2019 made it mandatory for DISCOMs to open LCs for the purchase of power as the terms of the PPA. The DISCOMs have started compliance with these directions. And as a result, with effect from 1st August 2019, JPL is supplying power to the DISCOMs with a proper payment security mechanism in place as per the PPA. And we have also received timely payments for our August and September invoices from all the three states of Tamil Nadu, Kerala and Chhattisgarh.

The Central Government is also considering sanction of a grant to the defaulting states as a one-time settlement so that all previous dues of generating companies' payable by the DISCOMs get liquidated. We are eagerly awaiting the same to liquidate our balance outstanding funding from Tamil Nadu. Although the outstanding has reduced from Rs. 1,000 crores to Rs. 770 crores on account of the energy bills, and there is no payment outstanding from Kerala or Chhattisgarh because all their payments are up to date.

In the last quarter, I had informed that an NHPC is spearheading a pilot scheme to aggregate 2,500 megawatts of power. And under this scheme, JPL was allocated a PPA for 315 megawatts. Now, we were expecting that this PPA will get inked by the end of the second quarter. However, the state DISCOMs are taking substantial time to finalize this and taking the regulatory approval. So maybe another six to eight weeks would be required to finalize this PPA and put it into operation.

Regarding the availability of coal, the Government has announced an auction of coal mines for the industry, except power. JSPL participated in this auction and has been the highest bidder for Gary Palma IV/1. The notification regarding the allocation of this mine to JSPL is awaited from the Ministry of Coal. JSPL will be able to make available 25% coal mine to JPL regularly. This will ensure the operation of JPLs units at a much better PLF.

We have been trying to reduce the debt in JPL and at the end of the second quarter the debt stands reduced to Rs. 6,800 crores, down from Rs. 7,000 crores, with about Rs. 204 crores being repaid in the reported quarter. We are also in the process of repayment of the debentures of Franklin Templeton of about Rs. 330 crores in six installments, of which two installments have already been paid. All this is proposed to be done without any additional borrowings and by utilizing the lump-sum payments being received from TANGEDCO for the outstanding use and also out of the interest being paid by the JSPL on the loan given. It is pertinent to mention that on the directions of the Appellate Tribunal, TANGEDCO is regularly paying the installments towards change in law dues payable to JPL, and we have already received Rs. 150 crores on this account in seven installments from TANGEDCO.

So that is the commentary from the power side. Now I would hand over to CFO-JSPL, Deepak Sogani.

Deepak Sogani:

Good afternoon, everybody. I am pleased to report a very good set of numbers, given the weakness in the quarter 2 which is seasonal. So, from a financial point of view, we have reported our consolidated EBITDA at Rs. 1,642 crores and our standalone EBITDA at Rs. 1,255 crores. The standalone crude steel production on a YoY basis in the reported quarter has gone up by 11% and the crude steel sales have gone up by 5%. Our consolidated steel production on a YoY basis has gone up by 10% and steel sales have gone down by 3%.

So, let me just give a commentary on the headline numbers that we have reported. As we've been sharing with you every quarter, the management team has been focusing on a much disciplined response to manage the fiscal environment. We have, in line with expectations, done very minimal CAPEX. We have been extremely focused on cost saving initiatives and Angul gradually is becoming more and more cost effective. Also, our product mix is improving. Given all the initiatives that we have been focusing on, I would like to believe that our response to the market environment in the last quarter has been one of the best.

The idea is to share what we had committed to all of you and what we are delivering. So let me start my first commentary which is on the debt side. On the net debt basis, at the end of the first half year FY20, we are reporting net debt figure of Rs. 36,501 crores, which reflects a Rs. 961 crores reduction over the net debt figure reported in the last quarter of Rs. 37,621 crores. And I am pleased to highlight that in the first half of this year we have been able to reduce our debt by Rs. 2,583 crores, which is in excess of the guidance that we have been sharing. Our guidance was that we will be able to reduce Rs. 4,500 crores to Rs. 5,000 crores from operational cash flow. We have already reduced around Rs. 2,600 crores from these operational cash flows in the current half year. I would also like to say that on an account of foreign exchange we had to take a hit in the reported headline debt numbers of Rs. 300 crores. Barring the foreign exchange impact; we have seen a total reduction of almost Rs. 2,900 crores.

The other point that I would like to highlight on the debt numbers is that in India, in JSPL in particular, we had a lopsided repayment schedule. We have almost paid Rs. 1,500 crores in the first half from a principal point of view in JSPL. Whereas in the second half, the repayment obligations are only around Rs. 550 crores. So, broadly we have done well on the debt side.

The second headline commentary would be on some of the other international businesses. As we have been saying that from the management team's point of view, we have been focusing on international businesses, given that the Indian flagship entity's cash generation, etc., is better than the last couple of years. So my first commentary is on Oman. Obviously, the Middle East market is a bit slow, and therefore we saw a bit of decline in the profitability there. In the first quarter, we had about \$26 million of EBITDA, and in the second quarter we had about \$16 million. Also, we had an additional gas and power charges of around 10 million which will get normalized in the current quarter. But the added raw material cost, and the billet and the electrode prices which have gone down, will start benefiting the Oman business from the

current quarter onwards. so, we should see almost \$60 per ton improvement in the raw material cost in Oman, starting Q3 and Q4. So, Q3 and Q4 are likely to be better.

Similar is the case of India, one of the reasons why our EBITDA was low because we had a decline in our NSR by Rs. 2,400, which was offsetted by cost improvements of around Rs. 500, about Rs. 300 due to cost impact and remaining due efficiency benefit of Rs. 200. But in ballpark we saw a net decline of EBITDA by Rs. 1,900 per metric ton. In the 2nd quarter, considering the reduction in the raw material cost of coking coal from 210 -220 to 150, and also in the levels of other property costs, we were not able to see a lot of benefit in the reported quarter. But in the current quarter, I am pleased to inform you that we are already seeing a raw material cost reduction by almost Rs. 3,000 per ton. Obviously, there is a bit of decline in the NSR in the current quarter as well, But now that the prices have started improving, we hope that the environment will become better. . We are hopeful that the quarter will be significantly better than the last quarter.

So, with this I conclude my commentary on Oman. Now, talking about Australia. Again, from a management point of view there is a lot of focus. We consciously shut down one of the operating mines, Wongawilli mine, because it became expensive to operate. We have been focused on reducing the expenditure by putting both the mines under care and maintenance at this point of time. The operating expenses are gradually coming down. In the reported quarter, some of the fast liability were still continuing to get incurred. But the outlook on Australian expenditure is going down. So, hopefully, the Australian expenditure should see lower levels in Q3 and much lower levels in Q4. At the same time, we are very focused on getting the approval for the Russell Vale mine, which should perhaps come in this financial year. And once that happens, it will put the Australian asset into a new trajectory. So, that's the next large lever on the Australian business.

My next headline commentary is on CAPEX. we have shown an increase as you may seen in the balance sheet. in the first half the year there is an additional addition of CAPEX of Rs. 1,188 crores. As you are aware that in line with the change in accounting standards IndAS116, the long-term leases are being reported in the CAPEX, which amounts to Rs. 799 crores. So about Rs. 800 crores of Rs. 1,188 crores is primarily due to change in accounting standard. And on a casual basis, the additional CAPEX that we have incurred in the first half is Rs. 389 crores on a consolidated basis, which is very much in line with about Rs. 700-odd crores guidance that we had given to you. So, we are very conscious about CAPEX and we are obviously focusing on delivering as best as we can and that's what we had been committing to you.

My next headline commentary is on loan against shares. When we spoke to you last time, the figures reported to you was Rs. 906 crores of outstanding loan against shares. I am again pleased to inform you that this figure has come down to around Rs. 760 crores from the peak of Rs. 1,151 crores. And at current, the stock price has also corrected. Given the change in the stock price and the reduction in the debt, the current pledge almost covers our loans to an extent

of around 4.6x times. So, it's a healthy cover and we don't see any volatility coming in from this area.

In addition to that, I would also like to make a quick commentary on the coal block. Our MD and Bharatji had briefed, that we have won this Gare Palma VI/1 coal block which is an operational coal block. So, ideally it should start delivering coal in a very short period of time. I think that is one important point to note. It is not one of the undeveloped coal block assets, it's already an operating asset. And it is next door to our plant in Raigarh as well as Tamnar. So, we should start seeing benefit which is very useful for us. Importantly, the coal availability for both power and for our steel business will increase, which will ensure that our operations continuity is there and we will be able to realize some additional profit on account of higher availability of coal in our businesses.

We are also looking to mine almost 6 million ton of coal from this coal mine on an annual basis. At this point of time, obviously, the mining and everything else will have to be evaluated and the final costing will develop. But on a big picture, we believe that we should be able to extract benefit of almost Rs. 1,500 per ton. So, we will be able to get cost competitive coal and increase our reliability on the coal side. And as you are aware, this is pit-head coal available which is swadeshi coal, so it will substitute our coking coal requirements. The imports will also get reduced to some extent. Domestically, we will be able to feed our steel business as well as our DRI business.

So, with these headline commentaries, I would like to complete my initial commentary. Over to all of you for your question and answers.

Moderator: Thank you.

Nishant Baranwal: Just to make an initial comment like always, I would request everybody to please ask more strategic questions. For data related questions, myself and Gourav both are here, and we can take them offline. Over to you, Sam, for the questions.

Moderator: Thank you, sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of ...from JM Financial. Please go ahead.

Participant: Just a couple of questions on JPL. Sir, in the current quarter if we see, realizations have gone up. So, what drove the realizations and what is going to be the outlook ahead? If you can throw some color on that.

Bharat Rohra: See, we have entered into long-term PPAs with Tamil Nadu and Kerala. Over four to five years the PPA has been in operation. There has been a change in law and escalation. And due to that, the realizations have improved because change in the law itself has granted us about 33 paisa per kWh as a payout. And now TANGEDCO is paying the amount regularly. So, the realizations have gone up.

Looking forward, this will continue and in fact the escalation component will also go on increasing. And the change in law, of course, nothing can go reverse, because it is already there in place. So, these figures of the realization will continue.

Participant: That will be helpful. Sir, my second question is on pilot to PPAs. I understand that we won around 515 megawatts, of which 315 megawatts was what is under discussion. So, what happened to the balance 200 megawatts?

Bharat Rohra: NHPC had given us a LOI for the initial 315 megawatts, because they had takers for a limited quantity. So, the situation remains the same that we are still hands on 315 megawatts. About the balance 200 megawatts, they are still trying to get it done with Jammu & Kashmir. Since Jammu & Kashmir has been going through turmoil, they are not able to: Sir, when will we start supplying for these 315 megawatts?

Bharat Rohra: As I mentioned in my initial introduction, the discussions are on with the Tamil Nadu and Kerala. With Kerala we have been given 200 megawatts, and remaining 115 megawatts with TANGEDCO. So, for both of them, we have given the draft PPA requirements. And they have to come back to us with their consent, sign the deal and then go ahead with their regulatory clearance. They are taking some time because both have their own approval process. I am sure by end of December we should be able to close the PPA, sign it, and get going on it.

: And it will be three years from December, right?

Bharat Rohra: Yes, it's a three years contract.

Moderator: Thank you. The next question is from the line of Rajesh Lacchani from HSBC. Please go ahead.

Rajesh Lacchani: Congratulations on the good set of numbers. And again, congratulations for winning the Gare Palma block 1. So my question is with regards to Gare Palma. Just want to understand what is the current sourcing at Raigarh and how much of this can we replaced immediately with Gare Palma?

VR Sharma: On Current sourcing in Raigarh, primarily there are two products, one is captive power plant and the other is a DRI plant. So, at the moment what we are doing is we are importing some coal and also buying coal through FSA route as well as the e-auction route. the day we get the confirmation from Government of India, it might take some time to hand over the mines to us but we will be in a position to start the mines within few weeks.. Our aim is to produce about 5 million tons to 6 million tons a year, which will suffice our requirement for entire quantity we need for the DRI in Raigarh, as well as for the captive power plant. This is what we are planning to do. And immediately we will stop the imports of coal and partly also stop the e-auction route, but the FSA route will continue till the time we are not fully self-reliant. This may take about another one month or 45 days' time.

- Rajesh Lacchani:** Sir, can you quantify what is the total annual requirement at Raigarh, including the CPP currently?
- VR Sharma:** The CPP and DRI when put together the requirement is about 4 million ton.
- Rajesh Lacchani:** Okay. So, we will be still left with 2 million ton additional, out of which we can supply to Tamnar as well, 25%?
- Bharat Rohra:** We are allowed to do, but initially it will take some time to ramp up. we also have to do the washing. And then we will take some time to ramp up. And hopefully, yes, after two, three months' time will be in a position to supply to Tamnar as per the government law, 25% we can sell.
- Moderator:** Thank you. The next question is from the line of Amit Dixit from Edelweiss. Please go ahead.
- Amit Dixit:** I have two questions. The first one is on your export product mix actually in this particular quarter. So what was the proportion of exports in this quarter? And how did it change YoY and QoQ?
- VR Sharma:** In Indian business, we have done 1.58 million ton production. And if you see out of that, on month-to-month basis we have produced about 150,000 tons of plates. we produce rails and structures together, about 80,000 tons put together. And then we produce about 130,000 tons of rebars per month. And then we also produce semis and rounds for the domestic market as well as for the export market. So what we have done in the last three months' time since most of the central and western part of India was under heavy pressure the demand of TMT that is the rebars was little less. So, when you look at demand of other commodities like general fabrication purposes plates and some of the structures was also less. So what we did, we exported plates, billets, rounds, and part of pig iron. So all these were exported from out of India. So if you see on a month-to-month basis, we have done about 100,000 ton plus exports in the last quarter.
- Amit Dixit:** Next question is that whether we plan to tap export market opportunistically. And what is the, sustainable export volume that you are looking at?
- VR Sharma:** First of all, as I told you, the three major products,. One is rail business. We'll continue supplying rail, whatever the quantity government is asking us to supply. Then, number two, we have already qualified for rail guarded wheels. All the plans are taken, and everything is in place. We will now supply the heat-treated rails to Indian Railway as well as to metros. And the next product what we have are structures. So that is going on very well without any compromising. Then the specialty instructions for the infrastructure projects like power

transmission lines. So this is also going very well. Plates, we are doing extremely well. The only pressure what we are feeling today, like the other peer group in the steel industry, is the construction steel like rebars and partly wire rods. We are keeping a close watch on this business.. And maintaining a good profitability. We are getting good prices, good EBITDA in exports also because, internationally, the prices have gone up in last two years' time. And because the scrap prices have gone up by \$35 to \$40 and also the HBI and DRI prices have gone up. This has given an impetus to the export prices also. So we will continue exporting until February next year.

Amit Dixit: Okay. The second question is on your sales guidance. 6.5 million tons at this point in time, the ask rate for H2 looks quite high, I would say. So I mean, how are we going to achieve that considering the overall demand weakness in the market? Or are you seeing key segments of the market recovery?

VR Sharma: You see the big effort is being made by Ministry of Steel as well as Ministry of Finance and Honorable Prime Minister himself. And in the last 10- 15 days of results of government if you see, they have done everything to boost it all. The RCEP decision of Prime Minister is a very wonderful decision. Though some of the FTAs already exist for the last 8 years, those FTAs will continue with Japan and Korea and some other countries. But there are no more other burdens on the steel industry. The government of India has considered in the interest of MSMEs and SMEs and small industrial houses, so that the end user stream is protective and continuing. In this five months' time, there will be a boost in the infrastructure projects be it railways, be it transmission towers, be it the bridges, be it defense sector, everywhere, there is a growth. Government has given full thrust on the projects announced by government. Government is not doing anything by themselves because they have the alternatives available; they have these infrastructure companies available from the private sector only. So everybody is getting the gain and so are we. I think that the situation will improve in times to come, and it should be a good time for steel industry is what we are expecting.

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

Ritesh Shah: Sir, my first question is on the debt repayment schedule. In the prior calls, we had indicated that at the consol level we had around Rs. 1,767 crores of debt repayment. And we had indicated that there could be potential Botswana or other divestment actually, which could happen. So sir, how should we look at this? Is it your vanilla refinancing? Is that something that we are looking at or we have certain other options at hand?

VR Sharma: The company has done well. If you see the debt reduction plan, we started at somewhere about Rs. 39,000 crores. And if you remember the last meeting we had three months back, we declared that, yes, we will bring it down to Rs. 34,000 crores by the end of the financial year, and we are in line. And I am glad to inform you that Rs. 2,500 crores of debt has been reduced.

Now we are at level of Rs. 36,500 crores and we will bring it down by another Rs. 2,500 crores by the end of 31st March 2020, and we will be at level of Rs. 34,000 crores. I repeat what our Honorable Chairman, Mr. Naveen Jindal, has told us, no CAPEX, earn and invest policy. So we are on the same philosophy, , no more CAPEX, no more investments. Our aim is to reduce the debt, and his target is to bring it down to Rs. 30,000 crores next year. And finally, we want to see the company as a debt-free company in times to come.

Ritesh Shah: Right. Sir, so my question is, are we looking at refinancing the Q4 payment that we have of around Rs. 1,800 crores?

VR Sharma: I will let our CFO, reply to that particular question. I am handing over to Mr. Sogani.

Deepak Sogani: Yes. Ritesh, this is Deepak here. As you are aware, we are going through the process for selling Botswana asset. There are certain conditions precedents which are yet to be fulfilled, and therefore, the process is going on. The buyer is fully engaged with us. So we are just hoping that the transaction delivers the cash as soon as it can. So that's one level of cash available for us to repay the Mauritian debt or the repayment that was there in March. But in addition to that, obviously, as the Indian cash flows are good and global bond yields or foreign currency debts are low, several lenders are obviously talking to us for refinancing options. So there are many ways in which we are trying to address the problem. But the larger solution is the Botswana sale. We would also share that we have a shelf project here in Oman. We have already done many months of work on raising capital in Oman. But because the Oman market has gone down, we didn't launch that project. So if the markets are opportunate in maybe one quarter or thereafter, we will be able to reactivate that project also. So there are many ways in which we can kind of seek the capital that is required for March.

Ritesh Shah: That's helpful. Sir, just two questions. One is, sir, what is the strategy on iron ore and coal auctions? So we had Gare Palma IV/1. There are few other coal blocks. And specifically, Sarda hasn't trade out. So how should we look at come March? That was one. And Rohra sir, if you can just touch upon West Bengal and Gujarat PPAs. We had highlighted this in the prior calls. So what's the status over there?

Bharat Rohra: Regarding this PPAs for West Bengal and for Gujarat, both the tenders were withdrawn because of the low prices on the exchange. And both the DISCOMs are buying on the exchange rather than ink a deal with the generators.

Ritesh Shah: Okay. And auctions...

VR Sharma: Securing iron ore, that was your first question. So there is no disrupt of iron ore as of now, and we are fully secured because we are sitting in the hub of iron ore zone, where we have more than 10 million ton of iron ore in that part of the country., and the locational advantages are already there. Secondly, we are expecting that The Hon'ble Supreme Court will allow us to transport our iron ore, which is lying in SMPL. And the moment this iron ore is allowed to be

lifted by us, which is already duty paid, royalty paid and which we believe that the state government, central government, honorable court would allow us to use, which is probably worth more than Rs. 1,800 crores, It will definitely bring a respite, not only to JSPL, but to the entire industry because there will be little shortages what people are expecting due to the auctioning of iron ore mines. So this will be a great help. And I am confident the government of India and Honorable Supreme Court and state government will definitely consider this view because this is our material, our assets lying in SMPL.

Ritesh Shah: Right. And sir, on the incremental coal block auctions?

VR Sharma: As our requirements are very limited. We have a coal gasification plant in Angul which was installed based on the Utkal B1 mines, which were given to us to use for the coal gasification. Unfortunately, the coal block didn't come to us at that time, but we have done the investment of more than Rs. 20,000 crores, which was a huge. And this was the first plant in the country to demonstrate using Indian coal to produce the sync gas and then from sync gas to DRI and DRI to steel. We have taken all the trials, we have run commercially the project and the project was found to be very viable. We are going to replace gas of about \$14 to \$15 per mmbtu with a gas of \$6 to \$7 per mmbtu with the the Indian coal available. It's a great saving of foreign exchange for the nation. In next blocks, basically, we are interested in Orissa, so that we can meet our requirement.

Moderator: Thank you. The next question is from the line of Kamlesh Jain from Prabhudas Lilladher. Please go ahead.

Kamlesh Jain: Sir, just one question on the part of this NSR. And how we see the NSR in the Q3? And other than that, what is the profitability in the exports as compared to the domestic?

VR Sharma: The NSR for the plates is maintained as it is without any problem, Rails as it is without any problem, no reduction, and the heavy structures as it is. The general commodities NSR has gone down products like small angle channels, small beams and the rebars. So these are the areas where the NSR has gone down and this is the reason from Rs. 11,300 per ton of EBITDA we came down to Rs. 9,400. As I told you earlier, the coal prices have played a significant role. We maintained a pipeline of about 1 million ton of coal in pipeline. And all of a sudden they go up or go down, that impacts the balance sheet. But the positive effects will be seen in the quarter 3 and quarter 4. So as far as the NSR for exports are concerned, we are maintaining a good NSR. And we have been successful in maintaining the flow very well. And some of the good products we have in our kitty like the specialty products, like alloy steel billets, which normally the commodity players from Ukraine or Iran or Turkey don't supply.

Kamlesh Jain: Sir, I was asking about the Q3. How do you see the realizations of the NSR in the Q3 over Q2 average?

- VR Sharma:** Yes, In Q3 and Q2, , there are two factors. One is NSR. The other is EBITDA. NSR will be less than Q1, of course. Q2 was also less because there is NSR in terms of sales price. But if you see the EBITDA price, the margins will be better in Q3 and also in Q4.
- Kamlesh Jain:** Okay. And next, sir, on this Rs. 0.33 additional, which we got in this quarter. So because, historically, we have seen that this has proved to be a more of a one-off. It comes in a quarter, but following quarters it goes away. So are we going to see this Rs. 0.33 as sustainable in the coming quarters as well? Would we be able to sustain this Rs. 300 crores of EBITDA run rate per quarter in the coming quarters?
- Bharat Rohra:** You see, as far as this Rs. 0.33, which we are getting due to change in law, now this has become a permanent feature in our invoicing. And we are invoicing it on a regular basis to TANGEDCO. And as far as the EBITDA levels are concerned, we will be in this self-sustaining mode for maybe another quarter until the time this 315 megawatts PPA start performing. And after that, you will see a jump in the EBITDA, which we will be reported whenever we achieve.
- Deepak Sogani:** So I think, let me just give a little bit addition to what Bharatji has mentioned. Obviously, we don't have a policy of giving any guidance on EBITDA. But the outlook of the power business is improving with some additional PPAs that are likely to come in and also with some more certainty on the coal availability to the business. Ballpark in the remaining two quarters, we are more positive than what we were. And in future, we see our business shaping up quite well. So our management guidance in power is a positive uptick.
- Kamlesh Jain:** Okay. And sir, lastly, if I see the power EBITDA. So EBITDA is flat year-over-year, but our cash profit has almost gone up by around 50-odd percent. What's the reason behind that, sir, on the year-over-year front and the interest cost at similar levels?
- Deepak Sogani:** Right. I think from a business strength point of view, as you are aware, the power business has a extremely strong capital structure from a balance sheet point of view.. They have lent money to JSPL. Initially, there was a thought that we will transfer the captive power plants of JSPL to JPL, so that we can create a larger power asset in this business. But eventually, due to GST and other leakages, we opted out of that and we have now decided against the transfer of the captive power assets to JPL. As a result of that, some of the amounts that have been paid by JPL to JSPL have become interest-bearing, and there is some interest income that has got increased in JPL, which helps the sustainability. So JPL typically needs about Rs. 1,300-odd crores for its bank payments, etc, which will generate EBITDA in excess of that, and it will also get some interest income from JSPL. So the sustainability related JPL is quite strong. In addition to that, there has been obviously some change of bill related cash flows, which has added to the cash in the current half year that we have reported.
- Kamlesh Jain:** And sir, lastly, what are the plans on the coal security for our Angul - DRI plant?

- VR Sharma:** , This is what I told you because DRI plant at Angul, is based on the gasification route. We are also discussing with Ministry of Steel and Ministry of Mining, that we should be given some coal as per our requirement within the vicinity of the Angul plant. So we are working very hard, and some of the blocks will come on auction. Definitely, we will participate in that. So Raigarh coal requirement is already over. So now we are looking only for the Angul plant.
- Moderator:** Thank you. The next question is from the line of Puneet Bansal from IDFC Bank. Please go ahead.
- Puneet Bansal:** The question is that in terms of percentage, what is the total product mix impacted by the decline in net sales realization? We see that the rails, heavy structure in place are unaffected by the net realization decline and rebars , wire rods are impacted by this decline. So what is the percentage which they represent in the overall product portfolio?
- Deepak Sogani:** In the TMT segment in Q2, or in the rebar segment in Q2, the market prices fell by almost Rs. 4,500 per ton, a significant decline in our TMT segment. So we have 3 blocks, On the top of our heap is the RUBM where we have rails and heavy structures. Then, we have plates and then at the third level we have our rebars and other related products. Obviously, we do some value-added semis, which belong in the second segment. Despite there being an adverse movement in the rebar, prices were almost Rs. 4,500 per ton in Q2 versus Q1. Our blended NSR went down by Rs. 2,400 only reflecting the fact that we had significant stability in the NSR in our rails, which perhaps were almost stable..
- Puneet Bansal:** Sir, can we say that in the overall portfolio, around 50% of the products were impacted by this NSR decline?
- Deepak Sogani:** More like 30% to 35% almost, that's the range in which we would say the TMT segment and the market. So some of the products are significantly responding to the market movement in the prices. 70% of our products are value-added products, customized products, directly made for end customers, In that segment, we do not find that kind of impact.
- Moderator:** Thank you. Next question is from the line of Jigar Mistry from Buoyant Capital. Please go ahead.
- Jigar Mistry:** Sir, assuming that the coal block is handed to us today, how long until we ramp those up to full capacity?
- VR Sharma:** From zero date that is whenever it is handed over, I think we will take at least 15 to 20 days to start it. And then another two months' time to ramp it up to the full capacity.
- Jigar Mistry:** All right, sir. And what needs to happen between the times the government announces and we have handed the coal block?

- VR Sharma:** We are continuing with the existing sources like FSA, fuel supply agreement, and the e-auction route.
- Jigar Mistry:** No, sir, not what I asked. Regarding the coal block, let's say, on learning the government announces that JSPL is the winner of the coal block, what needs to happen after that? Is there any timing of...
- Bharat Rohra:** I will clarify., there are a lot of clearances, which are available for the buying before the production starts. All those clearances were earlier with JSPL, which were subsequently handed over to SECL because SECL was the appointed as a custodian. Now those approvals we have to get transferred back to JSPL. and that will take a short time, maybe one or two months. And then as soon as they are handing over, as Mr. Sharma told you what will be our methodology of the ramp-up.
- Jigar Mistry:** So to join it, I think once the government announces within the next six months we will be almost at peak capacity?
- Bharat Rohra:** We would be producing immediately after the handing over= taking over is over. Now it all depends how the ramp-up takes place. But we are sure that we will be mining immediately after the handing over,-taking over. Over the Quantities, we should not comment right now. So let us keep our fingers crossed. The plants are running even without Gare Palma, and Gare Palma is added bonus that we have now with us. We will use it to our best advantage as soon as possible.
- Moderator:** Thank you. The next question is from the line of Pallav Agarwal from Antique Stockbroking. Please go ahead.
- Pallav Agarwal:** So I had a question on your Wollongong coal mines. So you have this notes to accounts where it says that the current liabilities far exceed the current assets, and right now the mine is under care and maintenance. So is there a serious risk of these assets being impaired, and would we have to take write-down on account of these lines?
- Deepak Sogani:** So Pallav,. as we have commented on this matter that we have been fairly conservative in our accounting policies relating to the Australian business. So let me just walk you through the impairments that we have taken on the Australian assets. So in March of 2018, the fixed assets in Australia were around Rs. 3,900 crores. In March of 2019, we took an impairment of Rs. 1,286 crores. So we took a large impairment in March. Subsequent to that, we also got it valued that was based on management estimates. So in June, we took additional impairment of Rs. 567 crores. So today, in the books as at the end of September 2019, the asset which was reported at Rs. 3,878 crores in March 2018 are being reported at Rs. 1,829 crores, which reflect the value of the mines and the value of the land, etc, there quite adequately. So that's the first point.

Second point is that it is clear that Australia has been generating less cash, right? For last 10 years, we have been, for some period of time, we were not able to focus on it effectively. Since we have started focusing on it effectively, still it has been an expensive asset, and we have now taken the right managerial steps to strengthen the business team there. We have obviously shut down the Wollongong mine because it was an expensive mine in the near term. And in future, we may reopen it with another team. But right now, we are waiting for Russell Vale approval. So if you ask me, the main cash flow from Australia has been generated from Russell Vale which is what is getting reflected in the current asset and current liability position. So it is nothing unusual. For last many years, that has been the balance sheet of Australia. I think now the good news is that we are awaiting some approval that should be around the corner, meaning a lot of hard work has been done to obtain the approval for Russell Vale. Once that is secured, the business automatically will move to the next level. Also, we are now closer to monetize some of the land assets there. Therefore, broadly, the outlook on the steel business is much better than what it was maybe even in the last quarter or in the previous quarters.

Pallav Agarwal:

Okay. And just to understand, this Rs. 567 crores. This is not being routed through the P&L as an exceptional item. So this has been restated in the balance sheet. Is that understanding correct?

Deepak Sogani:

So you are right. At the end of the June, this write-off was on account of some change in accounting policy whereby the business has now started taking a conservative accounting policy of charging depreciation based on mining rather than based on just passage of time. So based on that policy, this depreciation change was effected on 1st April 2017. So in the last quarter, we actually took an impairment of Rs. 567 crores through the balance sheet route. The Rs. 1,286 crores earlier on was through the P&L route. And in the last quarter, we also had a Rs. 98 crores impact in the profit and loss account on account of the restatement of the assets or impairment of the asset. So in totality, we have taken almost Rs. 2,000 crores worth of write-offs in the Australian asset. And now, the residual value of Rs. 1,800-odd crores we believe is extremely conservative and fair valuation of the business.

Pallav Agarwal:

Right, sir. And just lastly, we have been reducing debt very aggressively. Is it a lot of the lease coming from working capital as well, because if I just add the PAT and depreciation, those are not adding up to the reduction in debt numbers?

Deepak Sogani:

So that's a good point. So as a strategy, what we are doing, obviously, the focus has been on reducing debt. We are obviously maximizing the EBITDA as much as we can give the market conditions. So there is a lot of focus on cost initiatives. And there is a lot of focus on fiscal discipline. So cash flow wise we are very tight. But your observation is correct. We have definitely been able to improve our working capital very significantly. Quarter-on-quarter, we have been able to reduce our inventory. We have also been able to tighten our working capital. We believe that we have the lowest inventory in the entire sector. There's really no pileup on the inventory, finished or work in progress, etc. So in the last quarter, we were able to reduce

our net working capital by almost Rs. 900-odd crores, which contributed very significantly in the cash flow for us in the last quarter. In addition to that, as we are now exporting, some additional export prepayment related cash flows are pouring into our business also. On top of EBITDA, we are partly getting some advances from our customers on the export fronts and optimizing our working capital. So that's been the larger managerial actions on the cash management side of our business.

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

Pinakin Parekh: Sir, just a couple of questions. First on the Gare Palma coal block. Sir, would the company need to undertake any CAPEX to get mining to the peak levels? And what was SECL's mining production at the mines at this point of time? And my second question is, sir, has the company undertaken any price hikes in any of the product categories for the month of November?

VR Sharma: . First of all, we are expecting the mines to be handed over to us as soon as possible, as the government of India approves everything. The SECL was producing about 1.2 million ton to 1.5 million ton per year.. And there are some CAPEX required. Like for example, we have to have some conveyors to be in place, some of the vehicles to be in place, some of the metal handling footprint to be in place, then a washery needs to be set right. So these are the CAPEX area, but not too much, but these are manageable. But we have done some math, so Mr. Sogani is going to reply you.

Deepak Sogani: So given the fact that the Gare Palma IV/1 was an operating mine, there is minimal investment required post the acquisition of the mine. There is a small cash component to be paid for acquisition of the mine, which in upfront payment to the government of about Rs. 50-odd crores. And the miscellaneous CAPEX that Sharmaji spoke about just now, all put together will be in the ballpark of Rs. 50 crores to Rs. 75 crores. It's not very heavy on the CAPEX, at this mining.

Pinakin Parekh: Sure, sir. And sir, about steel prices for the month of November?

Deepak Sogani: So I think the way we are looking at it is that clearly the steel prices in October came down versus the last quarter. Also, the raw material cost has come down to almost Rs. 3,000. There has been obviously a significant reduction in October in the NSR. But what's now happening is in the month of November, there is an uptick. So gradually, we are seeing prices go up now. Of late, the prices are just trying to go up. Hopefully, November will see the reversion in the NSR. That's what we are expecting. At the same time, the reduced raw material prices will obviously provide us benefit from a contribution point of view.

Moderator: Thank you. The next question is from the line of Yash Doshi from SBICAP Securities. Please go ahead.

Nishant Baranwal: Operator, can we make this the last question, please?

Moderator: Sure, sir.

Yash Doshi: Sir, my question is, sir, if you assume Angul to produce 3.8 million ton, which will be more than the capacity of blast furnace, so on the hot metal side, do we expect the DRI plant to start or has it started from October onwards as we had guided earlier?

VR Sharma: Yes, you are right. the blast furnace will be fully sweat out at this level. There's no doubt at all. Now we are working to start the DRI plant. Although we don't have the coal for the coal gasification as of now, what we are trying to do, that there is an adequate quantity of coal gas-COG, we will be producing from our coke oven batteries. So we have now undertaken some of the modifications, and these modifications are under trial now, how to utilize coke oven gas to produce DRI. So this is the first time in the country. Though it will not be at full capacity of 2 million ton, but this will be about say 900,000 tons or say 1 million ton a year. So this production should come in the month of December onwards.

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

VR Sharma: So thank you all. Thank you for listening to us and give us an opportunity to speak all of you and to answer your questions. It was very pleasure interaction with all of you. And I am VR Sharma, Managing Director of the company. On behalf of my team, I thank everybody. And we need your support, Need your cooperation in building this company, a company of gains. And we are now fifth largest steel producer in the country and we will be crossing our 9.5 million ton of capacity next year, what is the installed capacity. We are not going to invest anything in the CAPEX, that is for sure. We are working how to make every day a healthier day. And despite of all odds, despite of all problems, despite of flood situation and market sentiments were down, we have grown up, and we will continue growing up is what the mandate is. So thank you, all.

Nishant Baranwal: Thank you very much.

Moderator: Thank you. Ladies and gentlemen, on behalf of PhillipCapital (India) Private Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.