



“Jindal Steel & Power Limited Q4 FY2019 Earnings Conference Call”

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- Moderator:** Ladies and gentlemen, good day, and welcome to the Jindal Steel and Power Limited Q4 FY2019 Earnings Conference Call, hosted by IDFC Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ashish Kejriwal. Thank you, and over to you, Sir!
- Ashish Kejriwal:** Thank you Neerav. On behalf of IDFC Securities, we welcome all to the Q4 FY19 earnings call of JSPL. We have the senior management of JSPL with us and now without any further delay, I would request Mr. Nishant Baranwal- Head of Investor Relations to take it forward.
- Nishant Baranwal:** Good day, everyone. We would like to welcome you today to JSPLs Q4 and full year FY2019 earnings release call. Before we start, we would like to congratulate everyone for the highest ever revenue and EBITDA for FY2019 in the history of JSPL. Today, we have with us our Joint Managing Director, Mr. N A Ansari, our MD and CEO of Power, Mr. Bharat Rohra, and our CFO, Mr. Deepak Sogani. Not losing much time, I would request Mr. Ansari to start with his opening remarks. Sir, please.
- Naushad A. Ansari:** Good afternoon to all of you and a very warm welcome to this interaction. I am very pleased to share the highlights of our performance. We will start with on a yearly basis, if you look at our standalone revenue, it is up 58%, standalone EBITDA is up by 51%, consol revenue is up by 41% and consol EBITDA is up by 30% and also at the same time, our net debt is also reduced substantially by more than Rs.4000 Crores and Oman has also produced the highest in the fiscal year. If you look at Q4 performance, it is actually a milestone for us because the company recorded its highest ever steel production in aggregate and also individually across all its locations.
- So, standalone was up by 19% to 1.5 million tonne, which is already more than 6 million tonne exit rate and the sales obviously kept pace along with that. The Angul production for the year is up by 92% to 2.25 million tonnes, the blast furnace in Angul is actually operating at very good rate close to 10,000 tonnes per day and it is further ramping up gradually. In terms of our topline, the JSPL standalone has the highest ever Rs.7402 Crores which is up by 29% year-on-year. This is on the back of high volumes, which have been done in India and despite the steel prices in this quarter being quite low; our EBITDA has been reasonably good. It is 1440 Crores which is marginally down on a year-on-year basis.
- The good thing is that the value-added products are close to about 62% of our product portfolio. The pellet sales was about 0.79 million tonnes during this quarter. This is again up by 6%. If I look at full year FY2019 performance on a standalone basis our production has gone up to 5.25 million tonnes, which is up by 31% and the sales also kept pace. If I also look at the overall EBITDA despite the prices going up and down, it has been fairly good. It is Rs.6017 Crores, which is up by 51% year-on-year basis. Pellet continues to be a steady business vertical and it has been performing

reasonably well. If I look on a global basis, Oman during this quarter has done about 0.45 million tonnes, which is almost similar to the last quarter on a year-on-year basis and due to the prices coming down substantially the EBITDA of Oman is lower compared to the earlier number.

Mozambique mines have produced substantially more at 0.52 million tonne ROM in this quarter. This is up 57% and the yearly production went up by 19% to 1.71 million tonnes. Australia during this year produced about 49000 tonnes in this quarter. The fact is that the Wongawilli mines have been placed under care and maintenance in this quarter, and any questions on that will be taken up during the question and answer session. If you look at the consolidated performance we have produced 1.95 million tonnes of steel that is up 14% year on year and at one point, it was almost close to about 8 million tonnes production on a consolidated basis.

The consolidated revenue is also up by 18% to Rs.10159 Crores and EBITDA is also up. EBITDA is 1845 which is marginally down because of the international business. I would also like to tell you about the steel business and what is happening there. If you look at the world steel projections we expect the world steel demand to go up by more than 1%-1.3% and as far as India is concerned, we expect it to be close to about 6.5% to 7%, which will continue. The China demand growth is also expected to be there in a positive number close to about 1% and of course we are very closely watching what is happening in US and China trade tensions. The Indian Steel Association is taking up the issues with the ministry and we are very sure that if there is anything untoward, which is to happen the right action will be taken by the ministry.

Of course, the iron ore prices have gone up primarily because of the Vale incident, and even though most of the year it was somewhere close to between \$65 to \$70, it went up substantially and now it has even touched \$100, but once the supply of Vale starts becoming better we assure that these prices will also come down, but what is also going to happen is that because of this cost push, we expect the steel prices to be much better compared to what it is, which is only a matter of time where the steel prices are concerned, which currently have been showing some downward trend. We expect them to come up very, very positively. Now, in India with 7.5% steel demand growth and not so much of capacity being built in the same timeframe, we expect that the demand will remain very robust and with this demand robustness, the prices should certainly improve substantially.

One issue, which the country is facing at the moment, is of liquidity and we expect that soon after the election results are over, the liquidity should improve substantially. So, this is what we think at what is going to happen to the steel business and we actually are very, very hopeful that in this year the result should be far, far better and now I will hand over to Mr. Bharat Rohra for his talk about power.

Bharat Rohra:

Good afternoon, everybody. I will talk about the performance of the Q4 and then I will go on to the outlook for the power sector after that. The performance of the Q4 of the year 2018-19 for JPL has seen a flat performance and the generation has been same as in the previous quarter at 2609

million units. The turnover has increase marginally from Rs.980 Crores to Rs.999 Crores and the EBITDA has marginally dipped from Rs.273 Crores to Rs.267 Crores, so with these numbers, I will go on to the outlook for the power sector, which for the first time in the last few quarters appears to be improving due to various positive steps initiated by the government.

Over the last few quarters immediately after the deallocation of mines, a large number of IPPs became unviable and some of them stopped plants and have left them in the midway stage and those which were operating found it difficult to meet their obligation Today, out of 77000 megawatts of installed capacity in the IPPs, 41000 megawatts of these plants are under the stress category. There are about 34 such IPPs, which are in the stress list and I am proud to say that JPL puts in its best effort and continue to be counted out of this list. The government during the year 2018-19 has setup a committee of secretaries to look into the stress in the power sector and come out with measures to reduce the stress. The recommendations are positive and some of them are now under implementation. In line with these recommendations, NHPC has come out with the aggregation tender for 2500 megawatts to be sourced from IPPs, who have FSA, but do not have PPAs.

JPL has offered 515 megawatts in this tender and has emerged as L1 in this tender. Another tender for 2500 megawatts is being finalized, which shall be for sourcing power from IPP that do not have FSAs and also do not have PPAs. This tender is likely to be floated by the government on similar lines as the NHPC aggregation. This will happen sometime in the month of June and JPL is eagerly looking forward to book a sizable quantum in that tender also. There are a few more tenders floated by Bengal, Telangana and Gujarat and we are optimistic about getting some quantity in all these tenders. Now, apart from PPAs, the availability of coal has seen a slight improvement

Coal India has also been directed to offer more quantum of coal in special forward options helps only for power plants and due to all these steps the price and the availability is better. As far as our operations are concerned in the current year, JPL has ramped up generation from April 2019 to 1700 megawatts up from the average 1400 megawatts that we used to operate in the previous financial year. This will improve our PLF from 34% to 50%. We planned to operate out plant at plus 50% and as soon as aggregation tender floated by NHPC starts in October this year, our PLF shall see a further boost. Another positive thing that I would like to share with you is that in end March 2019, APTEL has directed TANGEDCO, one of our biggest customers to start paying JPL for the change in law and the settlement has been reached by which TANGEDCO has started paying change in law dues in installments. Further in another development, TANGEDCO has also started paying JPL dues due to escalation, which we had filed last year and this is on the directives of the Honorable High Court, so with these positives I would like to handover to our CFO, Mr. Deepak Sogani for his message. Thank you.

Deepak Sogani:

Good afternoon everybody. I am pleased to present very strong set of financial numbers for the year ended FY2019 and for the Q4 ended FY2019 as well. To go through the headline of the

numbers, on the revenue side our yearly consolidated revenues have grown 41% as compared to FY2018, similarly standalone revenues have grown by 58%, our production has grown on a yearly basis at 22%, our standalone production has grown by 31% and let me highlight the production of Angul, which has grown by 92% from FY2018 and the plant is now fairly stable and should be able to ramp up meaningfully in the coming year in FY2020 as well.

Similar story on the EBITDA side, our consolidated EBITDA grew by 30%, standalone EBITDA grew by 51%, so it is a remarkable financial performance as well. Now, after covering the highlights on the revenue, production and the profitability, which are all in line with our expectations, let me just give a little bit of color on our financial profitability. In the current quarter, we have seen significant improvement in our cost of producing the steel. We have been mentioning that we are driving certain operational efficiency initiatives both in our Angul and Raigarh.

So, I am happy to report that Angul already is producing steel cheaper than Raigarh today in the last quarter that is Q4 of FY2019, we have seen about Rs. 800 per tonne efficiency benefits coming in on the cost of production of the steel side both from operational efficiency initiatives as well as from the ramp up led efficiency initiatives in Angul and as we have been saying that we will see total of around Rs.2500 to Rs.3000 per tonne cost of production improvement as Angul ramps up. So we are expecting that in the current year we should be able to see more of the cost-led efficiency in the business of somewhere around Rs.1500 to Rs. 2000 per tonne which would be the ballpark estimate of additional efficiency that will come in the cost of producing the steel and both accounts, as Angul ramps up about Rs.1000 odd will come from there and in addition to that we have embarked on several operational efficiency projects, which will help us improve our mill yields, which will help us improve our production throughput from mills and many of these initiatives will again deliver value in terms of reduced cost of producing the steel.

So, we have started delivering improvement in our cost of production and in the coming year further improvement in the cost of production of the steel is on the anvil, so I think that is one important commentary that I would like to leave behind. Second important commentary on the financial color is that our product mix is improving, already we are doing a fair amount of rail and structures business and as we moving to the next year, we will improve our volume our product mix will become richer and it will obviously strengthen our value-added steel mix as well, so in this term the various initiatives we are taking are based on the increased volume that is coming our way and the improvement in the product mix is planned ballpark about Rs.1000 of NSR improvement is being factored in to our next year's workings on these factors. So as I mentioned irrespective of the market volatility in the pricing, about Rs.2500 odd of structural internally controlled initiatives are on the way, which will flow in quarter after quarter, so that is the broader construct based on which we should deliver the results in the coming years.

Now, let me add on a little bit of commentary on some of the items that have been reported in the financials. The first and the foremost we would like to report that as you are aware that our

Australian mine, which was working in Wongawilli has been shut down and as a management team we have taken a view on the valuation of the mines, the carrying cost of the Australian mine was 750 million Australian Dollars and we have taken an impairment to be on the conservative side of 252 million Australian Dollars totaling to Rs.1286 Crores. So that is one provision that we have taken, which is reflecting in the reported depreciation numbers. If you see the depreciation numbers that had been reported are Rs.5480 Crores that factors Rs.1286 Crores of additional depreciation on account of impairment that we have taken in the Australian business due to mine downward revaluation.

The second commentary that I would like to give is on the exceptional items. We have reported on a standalone basis Rs.1654 Crores of exceptional items, which are primarily coal levy advances that were lying in our books of Rs.1274 Crores based on the fact these were the payments that were made long time back based on the Hon'ble Supreme Court judgment, dated September 2014. Given that we were contesting the judgement and given the fact that there has been no movement in the last three years, we have decided to pass them in profit and loss account. Similarly, there are charges of Rs.308 Crores pertaining to electricity duty for our Raigarh plant. This pertains to certain benefits that were promised by the Chhattisgarh Government In 2007, there was a MOU sign with them by which they had given us various industry incentives including electricity duty exemption for a certain period of time; however, the government in 2013 withdrew the benefit from retrospective effect for large industries, which we have been contesting, we believe it is discriminatory; however, as there has been no progress on the matter in the last three years to be on the prudent side, we have taken another Rs.308 Crores charge over there. Then there is one plant in Barbil, which is the producer gas plant, which is a small plant, the total cost of the plant was around Rs.100 Crores. This plant initially had some teething trouble and we were operating it, but then we figured out that the right configuration for running this plant required coal of high grade and high cost and therefore eventually the plant was shut down. Again, for the last three years, we have not been using this plant and therefore we have discarded this plant of Rs.71 Crores net of salvage value of the plant. So these are all non-cash expenses pertaining to cash flow that have happened many, many years back. Similarly, in the consolidated side, we have taken Rs.81 Crore charge in the power business again, pertaining to the coal levy matter. So, that is the quick commentary on the exceptional items. I would like it leave behind the thought that most of these are of non-cash. This is a part of strengthening our balance sheet and taking a more conservative view on the accounts we are pursuing this. Obviously it also helps us to manage our taxation more efficiently as we take this forward.

Now let me also give a commentary on a couple of other items. We have been in multiple conversations with all of you every quarter and in one-on-one investor meetings, analyst meetings. And I would like to say that on some of the main items where we have made certain commitments to you, how have we delivered on the macro commitments we have made to the investors and to the analysts. So the first commentary in line of what we have said and what we have done. The first is that we have said that our Indian business will improve its production very significantly, we

will ramp up significantly and volume will be the key driver for our financial results. So that is indicated. We have grown our Indian volumes by 31% and consolidated volumes by 22% on a yearly basis. We have said that we will improve the production capacity in Oman from 2 million to 2.4 million tonnes. That again has been delivered right on time, in December of last year, that was also commissioned, and we are hoping that the benefits will start coming in, in the current year.

Second, we have said that we will see significant improvements in our cost of producing the steel, that Angul will produce cheaper steel than Raigarh. Again, that is a reality. Angul today is producing steel cheaper than Raigarh, which used to be Rs.2000 more than Raigarh, so that is again one standard feedback that we use to give the investors, and we are accurate on that as well. We have been saying that our product mix is improving, and it will improve our profitability. Obviously, the market prices of steel will be volatile. But true to what we have said, our rail mix, our structural mix and value-added mix have actually gone up and will further go up. So again, I think that is the business model that we have been sharing with you, and we have been delivering on that as well.

The next in line has been our main focus on deleverage. We have said that we will deleverage by Rs.12000 Crores in 2 years, FY2019 and FY2020. We said that this will be comprised of 2 components: Rs.9000 Crores from operational cash flows and Rs.3000 Crores from monetization and divestment related initiatives. So this year, we have deleveraged Rs.4000 Crores from operational initiatives through operational cash flow. And next year, we are in line for deleveraging about Rs.5000 Crores from operational cash flows. So that will make it around Rs.9000 Crores deleverage from our own internal operational cash flows.

We are obviously in the process of divestments in Africa, so we are in the process of divesting our coal assets. We hope to realize maybe \$150 million to \$200 million from there. The process is going on. There is an iron ore mine in Africa, which is also in the process of being divested. Again, it can fetch anywhere around \$100 million. And we are in the process of monetizing part of our business in Oman, which can again deliver maybe \$200 million to \$300 million. So all of these are mature projects, and we are very hopeful that in the coming year, on the back of it, we will be able to deleverage our debt to the extent of Rs.3000 Crores through nonoperational cash flow-related initiatives. So therefore, we will be on track to deliver our deleveraging thesis of about Rs.12000 Crores.

Then to our net debt-to-EBITDA leverage ratio, we have been saying that we are very focused & want to reduce our net debt-to-EBITDA very significantly. And I am pleased to say that, as we have been saying that the preferred Net Debt to EBITDA target for us is around 3. On a standalone basis today, at the end of FY2019, we stand at net debt-to-EBITDA of around 3. Last year, the same number was 5.36. So as a team, we have been focusing on net debt-to-EBITDA as the key driver for our business.

Similarly, on the consolidated side, our net debt-to-EBITDA reduced from 6.55 to 4.65. And in the coming year, in India, on a standalone, our net debt-to-EBITDA should be closer to 2, and on consolidated basis, it should be closer to a little over 3. So I think on the main issue on the deleverage, which has been a concern of the Street and has been a key management initiative, we have done our best to deliver, and we are hoping that whatever we have committed will get delivered in the coming year as well.

Next, we have been talking about capex. There were lots of questions on multiple calls and meetings over the capex. We have completed our main capex cycle, and very limited capex will happen every year. We have been saying that our capex should not exceed Rs.1500 Crores. So I am happy to report that in the current year, our capex has been in the zone of Rs.1000 Crores in total and the cash capex has been lower. The cash capex, in fact, is around Rs.460 Crores. and the total capex this year is Rs.1088 Crores. Balance money was used to repay the previous supply-related capex. So ballpark, our Capex is also very much in line with what we have indicated to you.

So with that, I would like to close my initial commentary, and we can open for the Q&A round.

Nishant Baranwal: Thank you Sir. We now open the call for questions, but before we open the call my small request, please ask more strategic questions, we at IR (Myself and Gourav) are always there to help you with the data questions. With that, operator, we can open the call for the questions.

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

Amit Dixit: Thanks for the opportunity Sir. I have a couple of questions. One is on the impairment loss, the impairment that you have taken in Australia. So the carrying cost is AUD 750 million, as you mentioned, and the impairment cost, AUD 252 million. So point is if there are possibility of taking further write-downs on this? Or going ahead, if the prices improve, do you see that there is a possibility of writing that as impairment charge?

Deepak Sogani: So based on the detailed evaluation done by the Australian management team, it was felt the AUD 252 million was a fair impairment. Number two, we are working for certain license renewals and approvals in Australia, which are likely to come in this fiscal, which will obviously improve the value of the business over there. Further, we have certain land assets there, which are fairly monetizable and have a fair amount of monetary value as well. So based on monetizable assets, based on improvements that are possible in terms of the licenses that are going to come, we believe AUD 500 million appears to be a fair carrying cost at this point in time.

Amit Dixit: Sir, the caution or the main concern is that you had a very decent production uptick from this mine in this year also, so cannot understand the operational difficulties to take this impairment charge.

- Deepak Sogani:** Well, so the main reason as we had mentioned on my opening commentary, that due to certain regulatory reasons, the Wongawilli mine has been shut down for the time being, and we have to obviously work to bring it back to the production level. And on account of the shutdown of the mine and on account of the other regulatory challenges that we are trying to deal with at this point of time in respect of the Wongawilli mine, we have decided to take a look at the carrying cost of the assets in Australia. Also, within the other parts of the financial reporting, we had started taking a sharper look to make it more conservative and improve the health of the balance sheet. So in line with the larger objective to strengthen the balance sheet and take a conservative view, we have decided to take this impairment. Currently, we do not feel that there is going to be any need for further impairment based on the information that is there, so it looks like a fair assessment.
- Amit Dixit:** Okay. The second question is on the interest cost that we have. Basically, the high interest cost were Rs.276.2 Crores that is provided on advanced receipt from JPL. So just wanted to understand the rationale of the same and how much more we can expect in ensuing quarters and whether the transaction has been consummated or not?
- Deepak Sogani:** So as you are aware that there was an advance given to JPL of around Rs.2800 Crores, , to divest the captive power plants from our steel business into JPL. And when we evaluated it closely, we figured out that there will be post-GST, would be tax leakages if we were to divest those captive power plants into JPL. And therefore, we have decided not to pivot the captive power plants from JSPL into JPL and therefore the advance that has been paid from JPL to JSPL has been converted into an interest-bearing advance. The Rs.270 Crores that has been charged off in the fourth quarter pertains to the annual interest for these particular advances. So in the coming FY2020, Rs.270 Crores will be the full year additional interest payable to JPL. Obviously, in the consolidated financials these will get knocked off.
- Amit Dixit:** But this Rs.270 Crores you are saying will come again in FY2020?
- Deepak Sogani:** This was a quarterly charge, which was taken for the full year in the fourth quarter. Then in each of the 4 quarters, Rs.270 Crores will be the annual charge.
- Amit Dixit:** But Sir, if the transaction is not going to happen, then why are we continuing this advance? Why cannot we return that advance and finish it once and for all?
- Deepak Sogani:** No. Obviously, we would like to, based on cash flows and based on the lenders' approvals in the steel business. Eventually, at some point of time, that will actually be done. But for the time being, after having taken the management decision that we will not pivot the captive power plants to JPL, this was the most prudent thing to do, to start paying interest to JPL on this matter. And also, we are contemplating restructuring of our business into 2 different businesses, the steel and power business. So hopefully, when we carry out that exercise at that time, we will be able to settle and take care of this advance as well.

- Amit Dixit:** I have certain other question, but I will come back in the queue. Thank you.
- Moderator:** Thank you. The next question is from the line of Jimesh Sanghavi from Principal Asset Management Company. Please go ahead.
- Jimesh Sanghavi:** Sir, could you just update on the Oman asset sale? It has been taking longer than what we had expected earlier. So where are we placed as of now? And by when should we expect this to get consummated?
- Deepak Sogani:** So obviously, we have been saying that we will work on our monetization event in Oman. and as reported to you on the last call and in various other intermediate conversations, that project is going on. It is a mature project, and we are hoping that it will deliver cash in the near term. However, as you are aware that the prices in the beginning have turned softer, and our financial results in that region have kind of come down a bit. There are conversations going on with the investors to realize what the current financial outlook of the business, post which we will be able to conclude this transaction.
- Jimesh Sanghavi:** But would you like to give any time line now because we were earlier expecting it to happen by March, now it is probably the first quarter results so kind of just 1 month away. So can we expect it to happen this quarter or it could get delayed further?
- Deepak Sogani:** I think we are working on the project; it is I would say that it is almost 80%-85% done. In the next 1 or 2 months, we should be able to take a final view on the project and deliver the project.
- Jimesh Sanghavi:** Okay. Fine, Sir. And Sir, secondly, on the Sarda Mine case, if you can share anything, next hearing on that.
- Naushad A. Ansari:** So let me answer this question. So as far as Sarda Mine is concerned, this case, we are there for our iron ore fines, which are almost 12 million tonnes, which are lying there. We were expecting this case to be decided in the month of May. So we are very hopeful that in the month of July, we should be able to get this clearance very soon and o. So that is as far as for the iron ore, which is there. There is another case, which is directly between Sarda Mines and the government. And that is something, which we really do not want to comment at the moment.
- Jimesh Sanghavi:** Thank you.
- Moderator:** Thank you very much. The next question is from the line of Ritesh Shah from Investec. Please go ahead.
- Ritesh Shah:** Sir, thanks for the opportunity. Sir, first question is on other power operations, you indicated a lineup of potential PPAs. Can you please highlight the quantum and the time line for each of the

ones that you indicated? It will be a bit of a repetition, but I think this is something which is more exciting for JSPL going forward.

- Bharat Rohra:** Yes. Sure, Ritesh. You see, the largest PPA quantum that we have got is of 515 megawatts in the aggregation tender brokered by NHPC. Now NHPC is in the aggregation mode. They are talking to the DISCOMs. And once they are through with the aggregation quantum of 2,500 megawatts, next month, they will come back to us, and then they will start signing the PPAs with various generating companies. So there is 515 megawatts that we are trying over, Apart from that, in the short term, in the last 2- 3 months, we have been doing PPAs with Torrent, UP, Bihar, and we have done it at good prices but all those for a short term. In the long term, this NHPC is there, and then there is another tender from Bengal, which is in the medium term range, that we have to submit the bids next month. There is another 3,000 megawatt tender from Gujarat, which is on a long-term 25-year basis. There again, we have to submit the price bids in the month of June. So these are the tenders which we are working on.
- Ritesh Shah:** So this is helpful. Sir, Gujarat, you said, 300 megawatts. What is the kind of competition that we are expecting over here? And I am presuming this is for Gare Palma wherein we will have some advantage.
- Bharat Rohra:** Yes. Gujarat, it is 3,000 megawatts. Bengal is 300 megawatts.
- Ritesh Shah:** Sir, I think Gujarat was 9,000, out of which 1,000 was for Gare Palma, so please correct me if I am wrong.
- Bharat Rohra:** So there are 3 tenders issued by Gujarat for 3,000 megawatts each. But as far as our understanding goes, they are trying to find out the route which is going to be cheaper for them. So at the end of it, they will go in for only 3,000 megawatts. And in regards to Gare Palma, they want 3,000 megawatts from there also and we being located in such a way that nobody can beat us on the price, which we are going to bid over there.
- Ritesh Shah:** Okay. So Sir, just to verify, this is 3,000 megawatts corresponding to Gare Palma and Gujarat. Is that right?
- Bharat Rohra:** You see; Gujarat has issued 3 separate tenders of 3,000 megawatts each. In 1 tender, they are saying that it has to be with a person who owns a mine. In another 3,000 megawatts, they say with FSA coal. In another one, they say with Gare Palma coal. So they are trying to determine which is best for them. In totality, they need about 3,000 megawatts only, they do not need 9,000 megawatts. And I feel that the Gare Palma one is the one in which they will be going forward, yes. And we are trying to give them at least 1,700 megawatts from our plant in that tender.
- Ritesh Shah:** Okay. And Sir, Bengal, you indicated, what is the contract over there?

- Bharat Rohra:** That is 300 megawatts. That is a medium-term tender for 3 years.
- Ritesh Shah:** 300 megawatts, 3 years. Okay. Sir, I have a couple of questions. Under other comprehensive income, we have factored a revaluation gain. I understand it is under other comprehensive income. This is for 2 of the overseas subsidiaries. What is this regarding to??
- Deepak Sogani:** Yes. So these are pertaining to business in Shadeed where the business has been revalued, the assets have been revalued. But they have directly flown to the reserves and surplus and they have not been reflected through the profit and loss account. So our only entry that has passed through the profit and loss account is for the impairment of Australia. So that one and the South Africa business. In both these businesses, based on the valuation of the business today, there has been an uptick in the business valuation.
- Ritesh Shah:** So is it possible that you can break up this Rs.4395 Crores because there is no cash flow impact? Is this something to do with the covenants that JSPL has?
- Nishant Baranwal:** Ritesh, I can provide you that data offline.
- Moderator:** Thank you. The next question is from the line of Ashutosh Somani from JM Financial Limited. Please go ahead.
- Ashutosh Sohani:** Thanks for taking my question, Sir, if you could throw some light on the debt side of Australian operations. So I believe the debt is close to USD 600 million. So ex of JSPL, Mauritius, there is \$400 million of long-term debt. So what is the interest rate that we can be charged on that? And are there any covenants that getting breached because of the changing outlook in these operations going forward in terms of net debt-to-EBITDA?
- Deepak Sogani:** So sure, I think for the debt breakup in the international business side, in Mauritius, we have around 765 million of debt.
- Ashutosh Sohani:** I am talking specifically about the Australian operations only.
- Deepak Sogani:** Australia that is a debt of around 400 million US dollar outstanding and your second question is that whether based on the current operating conditions over there, is there an impact on the loans or any covenants are getting breached.
- Ashutosh Sohani:** I have one more question, but I think I will come back in the queue. Thank you.
- Moderator:** Thank you. The next question is from the line of Atul Tiwari from Citigroup. Please go ahead.

- Atul Tiwari:** Thank you. Sir, in your consolidated P&L, your finance costs have been kind of inching up through the 4 quarters of this year, while your consolidated net debt has been coming down. So could you throw some light on that? Why is finance cost going up while debt is coming down?
- Deepak Sogani:** So there are 2 main drivers. One, obviously, there is an upward movement in the interest rates. So the MCLR of the bank has been going up, and therefore there is an uptick into the interest cost. Second, while we have been repaying the debt, the interest costs that we are reporting also factors in the interest pertaining to the LC discounting that we do on the customer receipt side. So as the business is growing, we obviously do our business primarily on LC basis. And as our revenue grows, the LC discounted, a portion also is going up and the interest charge is pertaining to such LC discounting, also gives an increase in the interest cost. So the deal fixed in the interest cost and obviously on the reduction side, obviously, the debts have been repaid and partially the interest costs have come down.
- Atul Tiwari:** And Sir, just one more. You mentioned Rs.2500 per tonne EBITDA increase, which is possible because of Angul ramping up and various cost initiatives that you are taking. How should we think about this number? What is the base? Should we assume FY2019 average EBITDA as the base or fourth quarter EBITDA as the base? And does it apply to the full business or only Angul, and by which quarter it will be apparent in your numbers?
- Deepak Sogani:** So as I mentioned in my opening comments that we have seen improvement in our cost of producing steel on account of operational efficiencies of about Rs.800 per tonne in the fourth quarter. And the balance, as we are talking about, around Rs.1700 to Rs.2000 additional EBITDA per tonne improvement is on the basis of fourth quarter onwards, right, so whatever is there in the fourth quarter and thereafter In FY2020, we should be able to see around Rs.1800 EBITDA per tonne improvement.
- There are various factors driving it. Clearly, there are operational efficiency initiatives that are in play right now, which will help us improve our throughput, which will help us improve our mill yields, etc. And as Angul ramps up, we will be able to get better cost reduction from the Angul plant. Further, we are completing our balancing projects. One of our coke ovens batteries is likely to be commissioned in October, and our new oxygen plant will come up in Angul in August. So based on reduced cost on account of coke, oxygen and operational efficiency parameters through the next year, we should be able to see Rs.1800 per tonne improvement on a blended basis, not just Angul but in both the location together. They are the operational efficiency initiatives that also being driven in Raigarh.
- Naushad A Ansari:** So to further add to it, so there are multiple levers by which we are actually bringing down the costs. So what Mr. Sogani already mentioned about the coke cost coming down as well as oxygen cost coming down because we have our own coke and oxygen, so that is obviously very substantial. And on top of it, the blast furnace cost is definitely going to come down substantially because we continue increasing our PCI rate and cutting down the coke requirement, and that is a very, very

important lever by which we will cut down our hot metal cost and consequently the steel cost. Also as we increase our volume, since the ramp-up is going on very well, so as we continue increasing the volume, our cost is going to come down substantially. And on top of it, there are many other initiatives, which have been taken within the organization in terms of improving the yield of various parameters, also looking at -- there are several improvements initiatives, which have been taken, looking at what is the best product to be made. And importantly, we release it out the margin. So there are multiple levers, and this Rs.1800 number, which the CFO has talked about, is certainly very much doable.

Atul Tiwari:

Thank you. So if you can allow me just one counterpoint on that one. So if you could, should we assume these benefits becoming apparent in your quarterly numbers from first quarter onwards? Or will it be more back ended in FY 2020? That is one. And the second thing is, all the initiatives have been happening in the background, but the impact of this was not visible in your EBITDA per tonne number in the fourth quarter numbers. So if you could shed some light on why it has not happened in the fourth quarter.

Naushad A Ansari:

EBITDA per tonne number, obviously, a lot of it is also market-driven, and that is something which is there. So therefore, you will see that quarter 4th NSR has actually come down almost by about Rs.2500. Actually, Rs.2800, it has come down. Part of it we have been able to cover up by improving our cost, close to about Rs.800 as those are part of actually, close to about Rs.1200 is what we have covered by our cost improvements.

But obviously the very fact that this improvement is happening and that cost improvement has taken place, that is why we have been able to maintain this EBITDA close to about Rs.10000. And that is what we are really talking about. So maybe there is a marginal reduction out there. But going forward, we certainly see the benefits coming, and already benefits are there from the cost improvement point of view, and also it will continue happening in the future also. There is absolutely no doubt in my mind.

Atul Tiwari:

So in FY2020, it will be the second half or starting from the first quarter, we can start seeing some of these benefits coming through?

Deepak Sogani:

There are 2 kinds of operational efficiency initiatives. One is driven by the volume of Angulas Angul ramps up, we will be able to see more and more cost reduction happening in Angul. That will happen as and when Angul is kind of ramping up in the full year. And the other is basically operational efficiency initiatives. As Ansari did mention, which deal with throughput improvement, etc., those will flow through the year, and they will perhaps happen more in the earlier part of the year because many of those projects are mature. So if you ask me my view on Rs. 1,800-. Rs. 2,000 EBITDA per tonne improvement, as in the last quarter, we have been able to deliver Rs.800 per tonne improvement in the cost of producing the steel through various initiatives. I would pretty much say that Rs.500 to Rs.700 per tonne per quarter could be the ballpark improvement that can happen in FY2020 in each of the quarters.

Atul Tiwari: Thank you.

Moderator: Thank you very much. The next question is from the line of Bharat Subramanian from Sundaram Mutual Fund. Please go ahead.

Bharat Subramanian: Good afternoon. Thanks for the time. Just a question on the realization. I know we see a blended rate additional growth of Rs.500 a tonne plus between 3Q to 4Q. If you will just guide us in terms of, if there is any adverse mix impact. And going ahead, how should we see another Q4 exit to, I think, balance sheet in terms of realization. What is in the markup? And in terms of mix, would there be something markedly different than the current year compared to how we exited FY2019?

Naushad A Ansari: So if you look at this product mix, which is there in this quarter, the product mix obviously has improved substantially. I mean compared to the earlier product mix, we have already increased by 50% this special products, the value-added products are what we have increased. So currently, we are close to about 62%. Now one of the items, which are there, and this is also the rail. And let me also elaborate a little bit on this rail business. So we entered into this rail business with Indian Railways close to about a year back. obviously, the rail profitability was almost at a similar level as what was there for the structures. But the good thing is that the new orders which are coming, once we have already got this entry, the new orders which are coming are almost 20% at higher NSR compared to the original rail price. So therefore, you will see the impact of this going forward. The impact of this will be very substantial on our EBITDA per tonne in the coming quarters and months because this is a very, very substantial jump as far as the rail prices are concerned. And also we have taken several initiatives to improve our rail productivity in the current. And that is also another thing, which is going to help us substantially in this. So in the coming quarters and year, the rail is going to be one fundamental thing, which should help us. On top of it, we are also pushing for the plates business. There are several grades, which we are developing, and we have already started getting into the market, and we also see the positive impact coming from the plates business also in the quarters to come.

Bharat Subramanian: So just a counter here rail mill, could it for us would be at what levels of utilization? And so it is the one at Raigarh.

Naushad A Ansari: So you are right. I mean the rail mill is at Raigarh.is not just the rail mill. This is rail and structural mill. It is the combined mill, what we call. So even at the time when the rails were not there, we were able to make structures order. So we were able to utilize it to the extent we have this key. You see earlier, our steel-making capacity was lower compared to our mill capacity. But now with Angul ramp-up, the steel availability has gone up substantially high. So now we are in a position to feed all our mills to almost 100% capacity. And so going forward also, they are exactly the same thing we are also going to do for our rail and structural mill. We actually call it RUBM, rail and universal beam mill. So this also we are pushing now for very high productivity. So therefore, , for example earlier, the nameplate capacity used to be somewhere around 0.7 million tonne. Now we had already made more than 0.6 million tonne. It is close to about what we are already doing. And

we actually depending on what is the product mix which we are seeing, depending on how much and what sections we are making and what rails we are making, that capacity varies according to that. But at the same, we are also pushing now for increasing our capacity to almost close to about 1 million tonne. So that is the way that we are trying to push. So therefore, as I said, going forward, rail, which is going to be in high demand, we will continue to supply more and more rails. And that should potentially be a pretty big value driver for us. And in the private sector obviously, we are the only ones who can really do that, SAIL is the other supplier which we are supplying. So I suppose that answers this question.

Bharat Subramanian: Thank you Sir and wishing all the best.

Moderator: Thank you. The next question is from the line of Kamlesh Jain from Axis Capital Limited. Please go ahead.

Kamlesh Jain: Thanks for the opportunity. Sir, just one question on the part of your guidance on cost reduction, if I see the Q4 your Angul operations had operated at roughly around 88% to 90%, so what rise this further cost reduction and secondly in March we restarted that DRI at Angul, despite knowing the fact these are not the seasonally strong quarters and the election has been there, so what drove the reason to restart the DRI plant?

Deepak Sogani: So it is extremely important that this DRI plant were shut down. We wanted to make sure that we try out all our plants and make sure that all our services are operating very well. And this was a short-term experiment, which we carried out, and we found that everything else is working because the plants, which are shut down for some time, it is important that we take it out, we make sure that everything is doing well and people are also in the practice of being able to operate it. So we tried that out. And also we had lined up the coal for this, which we wanted to utilize the coal as well as pellet. So therefore, there was a good reason to do that.

And the fact is that it still gives us some margins, but I think the better route is to keep pushing for blast furnace route until we have worked our additional oxygen plant because the caution was that should we use this oxygen for improving the blast furnace operation or should we actually use some of this oxygen for the DRI route. And after trying this out, we decided that the better thing is to push for -- use this oxygen fully for the blast furnace route, and that is how we have decided.

Now once the next oxygen plant is available to us by the month of August, then in September, we plan to restart our DRI, route also and then make additional lever to all on that.

Kamlesh Jain: Is it operational now, or back in the shutdown?

Naushad A Ansari: No. At the moment, we have stopped it simply because as I said, we really want to push for blast furnace, more and more productivity to be pushed out.

- Kamlesh Jain:** And lastly, on the cost side, sir. Why are there guidance on further cost reduction despite 88%, 90% utilization levels at the whole in the fourth quarter?
- Naushad A Ansari:** So when you say 88% to 90% utilization, Angul capacity is 5 million tonnes. The fact is that we are still operating at much lower capacity compared to what it is. We really have a lot of headroom in Angul to keep pushing forward. And with that headroom, our cost will come down very substantially. So that is the way that we really look at it. We have lot headroom in Angul to push forth.
- Kamlesh Jain:** To be honest, it is very unclear that what plans do we have at Angul plant because in one quarter, we restart the facility, in another quarter, within 2 months. We close, like we shut it down, then we like gave the guidance of a cost reduction but when we are first operating the blast furnace.
- Naushad A Ansari:** I mean it might look to you from that point of view, but the very fact is, as I was repeating, we have the DRI plant as well as a coal gasification plant. We also wanted to test out that whether with lower amount of oxygen usage, whether it really works out and whether we can share this in both cases and that is how we really tried it out to see that and it was possible. As I told you, it was beneficial but there was a more beneficial route, which was available to blast furnace. On top of it, we also wanted to use certain amount of coke oven gas in there, in the DRI plant, and we actually tried that experimentation also with the coke oven gas. And based on that, we have also decided that next time when we operate, we are going to use much higher level of coke oven gas, and that is another process, which has already been started. And in September, once we start, we should certainly be able to use more of coke oven gas. And the whole idea, of course, is to maximize the EBITDA, not just the production. And production, of course, we should see that which route is actually giving a better EBITDA, and that is how we did it at that operation. It was a short-term experimentation. so there was nothing unclear about it as far as we are concerned. We have a very clear strategy about this.
- Kamlesh Jain:** So Sir, if you look at the data, Angul plant in the last quarter produced around 55-odd percentage of its capacity utilization.
- Naushad A Ansari:** Correct.
- Deepak Sogani:** So there is a lot of headroom in Angul. So as Angul ramps up, efficiencies will come in and also the need for CGP, DRI will also kick in more when the volume process may be at threshold level.
- Kamlesh Jain:** Yes, but that capacity has not performed because that capacity is attached to DRI, and DRI is not operational. We would look to capacity integrated with the blast furnace not the DRI, which has not been operational for the last 1.5 years.
- Naushad A Ansari:** You are saying your positioning whether Angul is really having a 5 million tonne capacity or it does not have a 5 million tonne capacity, the answer to that is, that it is absolutely clear to us that

it has got this 5 million tonne capacity, if we have started, you should be actually more confident now of this because we actually started this, we produced it, we showed that it can actually produce and then we decided that because there is better alternative available until additional oxygen is available, therefore it is something which is further proven, you should not have any doubts at all that whether we can actually produce it or not. We are absolutely no doubt in that and repeating it that we actually proved it also, that this plant was operational, we saw it, it has not been shut down because of any operational reason, it is only because we think that we can make better EBITDA by using this oxygen through the blast furnace route at the moment then going through CCGP DRI route, so that is the way it is.

Kamlesh Jain: Thanks a lot.

Moderator: Thank you. Due to time constrain we will take the last question from the line of Rajesh Lachhani from HSBC. Please go ahead.

Rajesh Lachhani: Thanks a lot for the opportunity. Sir, I have a question really on the vendor realization. So if I look at quarter-on-quarter, there is trivial fall of close to Rs.6000 on the vendor realization. And this is coming at a time when our VAP, our value-added product mix was improving. So I just want to understand the reason for the same.

Deepak Sogani: On a blended basis, the realization appears to have dropped significantly. But in reality, the key NSRs had dropped by around 2,800 in the reported quarter. And as you are aware that we have fair amount of other than steel products, we have cement, we have power, we have pellet, we have iron ore, so for all these other products other than steel, we accumulate the EBITDA for all of them. And the total EBITDA that comes from them, that gets applied towards the source steel tonnage kind of resulting to the total EBITDA for the steel, etc., So the drop that you are seeing is on account of the accounting aspects letting through other than steel products. In steel, that drop is around Rs.2800 per tonne. So I just wanted to make a couple of comments towards the closing. One, there was a discussion around the Australian impairment, as we mentioned that to be on the conservative side, we have taken this impairment, but we are very hopeful that we will be able to get the mining approval for the Russell Vale mine shortly. And if that happens, we can now obviously see a significant improvement in the valuation of the asset over there. So that is just to record over there that the Australian asset, the management team is quite focused and very hopeful that we will be able to turn it around and take it to the next level. I think that is the point number one. Point number two on the interest cost, obviously, I tried to answer the question saying that in the interest cost, there are 2 elements of uptick that has come in, one on account of the increase in the LC, which has led to an additional interest cost. But I also mentioned that interest cost bucket includes certain operational matter-related interest costs, which deals with the LC discounting for the receivables. And as the business is growing, some of that is also coming in, and therefore that increases the interest cost a little bit. But broadly, the interest cost, if you look at it, from a quarterly

perspective, the increase in the interest cost primarily has been on account of certain one-off and annual charges, which get repeated on a yearly basis.

- Moderator:** Thank you. I will now hand the conference over to Mr. Ashish Kejriwal for closing comments.
- Ashish Kejriwal:** Thank you. I would like to thank the management of JSPL to give us an opportunity for the call. Sir, lastly, if you can highlight, whether we are still maintaining our FY2020 steel production guidance of 6.5 million tonnes?
- Naushad A Ansari:** So as I said, in this quarter, we already have done at the rate of 6 million tonnes. You have actually seen that more than 6 million tonnes. So 6.5 million is really no issue at all. We are absolutely confident that we will beat that number, without doubt. But right now we are not raising any more expectations. We are just leaving it at that, at 6.5 million, but we are absolutely sure that we will be beating it.
- Ashish Kejriwal:** Thank you Sir. Any closing remarks you want to give.
- Naushad A Ansari:** So what we really want to add is that we still have a lot of headroom as far as Angul operations and cost reduction is concerned. So that is one area where there is a lot of work happening. The other area is there is a lot of improvement happening all around in the plant and determining what is the product mix which is giving us the best EBITDA and how do we improve our mill productivity as well as the mill yield, etc., very substantial work is happening in that area. And the whole idea is that every week should really be better than the previous week, and that is the way we really work. We look at all the losses in terms of times now, not really in terms of hours but in terms of minutes, that what is the time it was really launched and how do we really do that. So there are no issues as far as operational improvements are there within the plant, so that is another thing, which is there. And the third is the product mix that the rail, the new orders, which are there, as I said, they are at substantially higher prices compared to what it was earlier. And that should give us very good margin going forward. So in all, we do expect that this year, 2020 will be much, much better than any that we had. Thank you.
- Moderator:** Thank you. On behalf of IDFC Securities Limited that concludes today's conference. Thank you for joining us. Thank you for joining us. You may now disconnect your lines.