



“Jindal Steel & Power Q2 FY2023 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the Jindal Steel & Power Limited Q2 FY2023 Earnings Conference Call hosted by ICICI 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. Amit Dixit from ICICI Securities Limited. Thank you and over to you Sir!

Amit Dixit: Thank you, Faizan and good evening, everyone. On behalf of ICICI Securities, it is my pleasure to welcome all the participants for JSPL's Q2 FY2023 Conference Call. At the outset, I thank the JSPL management for giving us an opportunity to host this call. From the management, we have with us Mr. Bimlendra Jha, MD and Mr. Ramkumar Ramaswamy, CFO. Without much ado, I would like to hand over the call to Mr. Gourav Sancheti from Investor Relations, JSPL, to take this forward. Over to you, Gourav.

Gourav Sancheti: Thank you, Amit. Good day, everyone. On behalf of Jindal Steel & Power, we welcome you all to this call to discuss our results for the second quarter of FY2023. We have with us our MD, Mr. Bimlendra Jha; and our CFO, Mr. Ramkumar Ramaswamy. I would request our CFO Mr. Ramkumar Ramaswamy, for his opening remarks.

Ramkumar Ramaswamy: Thank you and good day and good evening everyone. Let me give a brief overview in terms of our operational and financial performance and then we can open up for Q&A. Let me start with the sales volumes. For the quarter, our sales volume was 2.01 million tonnes. This was higher than the last quarter by around 16%, primarily driven by the higher domestic sales of around 36%. This was offset by lower exports of 48%. Because of the export duty, we have seen the share of exports declined to roughly around 11% of our overall volumes as against 25% last quarter. The production was 1.82 million tonnes. This was lower versus last quarter by around 9%. This was primarily driven by shutdown in our Raigarh plant during August. There were also scheduled shutdowns in Angul during the quarter.

Let me now talk about the realizations. Our NSR was lower by around 13% versus last quarter. Our domestic realizations declined by 9% and our exports declined by around 21%. If I were to give you a current view, currently, we are seeing realizations stabilizing and our October realizations is broadly around Q2 level. Costs; our SMS costs declined by around 8% versus last quarter. This was primarily driven by lower coking coal prices of around 6% and lower iron ore prices of around 24%. If I were to translate this into rupees per metric tonne, this would be around Rs.3000 per metric tonne of iron ore and around Rs.800 per metric tonne of coking coal.

In terms of EBITDA, our adjusted EBITDA for the quarter was around Rs.1426 Crores. This was lower than the last quarter by 50% primarily driven by the factors that I just explained earlier, that is higher volumes, lower costs, offset by lower realizations. We also had an opening inventory that was sold during the quarter, which realized lower margins. The estimated differential due to the opening inventory is around Rs.600 Crores, which is approximately around Rs.3000 per metric tonne.

PAT; let me talk about some of the adjustments that we made during the quarter. We have made some provisions in the quarter that I would like to highlight. We have been providing loans to our overseas subsidiary JSPML of around \$1.6 billion. We have been reviewing and assessing the performance of these investments. As you are aware, some of our subsidiaries like AU, Australia, have not been delivering the desired returns. As a matter of prudence, we have decided to make a provision for the accrued interest on this loan as well as the FX gain on revaluation of this loan. This accrued interest is around Rs.765 Crores and the accrued FX gain is Rs.898 Crores. The total value of these provisions that we made during the quarter is Rs.1664 Crores. After adjusting these exceptional items, the PAT is a negative of Rs.473 Crores, which is a loss of around Rs.473 Crores. Before these adjustments, the PAT is Rs.935 Crores.

Let me now quickly talk about gross net and cash flows as well. We have been pursuing opportunities to refinance our loans at terms that are reflective of our stronger balance sheet. Accordingly, we have taken refinancing of around of Rs.2779 Crores in the end of September, which is used for prepayment of some of our other loans in October. Accordingly, our gross net end of September would have gone up to Rs.13717 Crores. This is currently at Rs.10611 Crores. It is important for you to note that the Q1 gross rate was Rs.10764 Crores. Therefore, our journey to deleverage will continue. Our net debt was Rs.7334 Crores and the net debt to EBITDA is 0.66.

I would also like to highlight that our overseas subsidiary loans have been fully repaid. I will now quickly talk about the cash flows for the quarter. As an organization, we are fully focused on the cash flows on generating cash. We started with an opening balance of Rs.3356 Crores. We generated EBITDA of Rs.1426 Crores. Because of our focus on cash, we released working capital of around Rs.1938 Crores. As I mentioned earlier, we had the refinancing money coming in of Rs.2779 Crores. These are the broad inflows. In terms of our outflows, we had an investment in our subsidiary, JSOL of Rs.850 Crores. We paid advanced tax of Rs.673 Crores. We made capital advances for the coal blocks that we have received of around Rs.320 Crores. Our scheduled loan repayment was Rs.405 Crores. Our overseas loan repayment was Rs.320 Crores. Our sustenance capex was Rs.298 Crores. Bank interest that we paid was Rs.188 Crores and based on all of this, we ended up with a

closing cash of Rs.683 Crores for the quarter. If I adjust this for the BOB loan that came in, the closing cash would be Rs.3604 Crores.

I would also like to very, very briefly talk about our overseas subsidiary performance and then open up for Q&A. Overseas subsidiaries; they generated overall EBITDA of around Rs.93 Crores. Some of our subsidiaries like Mozambique and South Africa continue to make operational EBITDA. Australia, we have a negative EBITDA of around Rs.69 Crores and therefore, the overall overseas EBITDA was Rs.93 Crores. With this, I would like to close my opening remarks and then we can move to Q&A.

Gourav Sancheti: Thank you CFO Sir. As always, we request all of you kindly ask more strategic questions. IR team is always there to give you the data points. With that, I will probably hand over the call to Faizan. Over to you, Faizan.

Moderator: Thank you very much. We will now begin with the question-and-answer session. The first question is from the line of Kamlesh Bagmar from Lotus Asset Managers. Please go ahead.

Kamlesh Bagmar: One question on the part of this cash flow. In the cash flow, we have made one footnote that cash neutral to the extent of Rs.4386 Crores with respect to the sale of strip in JPL; what does that mean and how much tax we have provided for that particular transaction?

Ramkumar Ramaswamy: This is really loans that have been transferred to JPL. That is what has been reflected over here. In terms of tax, we will be making the final provisions by end of the year.

Kamlesh Bagmar: This Rs.4386 Crores is the net which we have realized or I believe Rs.3000 Crores was the equity component and roughly if we say Rs.4400 Crores, so does that mean that Rs.1400 has been in the debt reduction?

Ramkumar Ramaswamy: The equity consideration was Rs.3015 Crores and the loan that was transferred is Rs.4386 Crores.

Kamlesh Bagmar: Okay, but what does that mean that transaction to the extent of Rs.4386 Crores?

Ramkumar Ramaswamy: Sorry, can you repeat your question, please?

Kamlesh Bagmar: What does that footnote mean that it is cash flow to the extent of Rs.4386 Crores?

Gourav Sancheti: Kamlesh, I think, we will give you the details separately.

Kamlesh Bagmar: Okay, great.

Moderator: Thank you. The next question is from the line of Siddharth Gadekar from Equirus. Please go ahead.

Siddharth Gadekar: I have just two questions. First is on the coal mines. When can we expect all the coal mines to be operational? If I am not wrong, we had one coal mine in the past six to nine months, so when can we expect all the mines to be operational and contributing at 80%, 85% utilization? This is my first question. Second, in terms of iron ore also we had to ramp up the second mine, so when can we expect 100% utilization in that mine?

Bimlendra Jha: Okay. Thanks, Siddharth, for this question. First of all, with all fingers cross, all caveats, I do hope in this country when I say that this is the date where I can do something. I do hope everything falls in place. By that, Q4 of the current fiscal is what we are expecting our coal mines to be operational and start giving us results. If you do it earlier, there will be great luck. If it is later, then it is bad luck. But otherwise, that is what is visible as of now to us from our plants. As far as iron ore is concerned, we are actually in a very sweet spot in India. When we get iron ore cheaper from OMC, we source it from there. If that starts becoming more expensive, then we will activate more mining from our end. There is absolutely no problem, both mines are operational.

Siddharth Gadekar: Okay, you mentioned fourth quarter of FY2023, the coal mines will be operational?

Bimlendra Jha: That is what with fingers crossed with crossing my heart, I am just telling you. What I do not know is what I do not know.

Siddharth Gadekar: Okay and when can you expect 80%, 85% by FY2024 end or early FY2025?

Bimlendra Jha: FY2025 certainly, again if everything falls in place better, who knows?

Siddharth Gadekar: All right, Thank you.

Moderator: Thank you. The next question is from the line of Prashanth Kumar Kota from Emkay Global Financial Services. Please go ahead.

Prashanth Kumar Kota: Good evening and thanks for the opportunity. I know the sector is under challenging circumstances. Within that, we are doing our best. My question is not related to this quarter per se, but generally on the capex program that we are executing over the next two to three about Rs.18000 Crores plan. These assets that you are building across various sites, are these all under the standalone entity or are we building some assets under a subsidy or a different company, etc.,? Why I ask this because this sometimes raises questions that in the

past, will there be a spinoff, will there be a sale afraid, or something like that after spending, after getting them operate, etc., so this was just a clarification I wanted from you.

Bimlendra Jha: Thank you for your question. We have a fully owned subsidiary called Jindal Steel Odisha and most of the investment that we are talking about under this number that you said, which is without considering GST, under that most of the investments are coming up in under Jindal Steel Odisha, because it is a 100% owned subsidiary, that does not mean we have to sell any assets or anything else other than the transfer of land that has to be there, which has to be under Jindal Steel Odisha. Does that answer your question?

Prashanth Kumar Kota: No. Where I am coming from is in the past, for example, the Oman state asset sale or the power asset sale. This is not anything to do with that, right?

Bimlendra Jha: I can categorically say no, because this is an integrated facility with the rest of the plant site and doing anything like that would not be advantageous to us. It is much better to have this integrated site as a part of JSP, with a fully owned subsidiary, giving some benefits and that is what we can explain.

Prashanth Kumar Kota: Understood and allays of concerns of the investors. Thank you so much and wish you all the best.

Moderator: Thank you. The next question is from the line of Pallav Agarwal from Antique Stock Broking. Please go ahead.

Pallav Agarwal: Good evening. Could you actually give some more color on what exactly is this forex one-off; we had this item actually even in the first quarter, so what exactly is this nature? Is it an exceptional item or it recurs every quarter?

Ramkumar Ramaswamy: Thank you for your question. As I mentioned, we have close to \$1.5 billion of loans that have been given to our overseas subsidiary, JSP Mauritius and we have been accruing interest on this loan and we have also been revaluing this loan based on the current forex, so the gain that you see is based on the revaluation.

Pallav Agarwal: But in the consolidated accounts, would not that not be knocked off or you still see a gain in the consolidated accounts?

Ramkumar Ramaswamy: We will still see a gain on the consolidated level because the overseas entities are dollar repatriates.

Pallav Agarwal: Okay, so is it more of a translation effect?

Ramkumar Ramaswamy: That is right.

Pallav Agarwal: The other question was on coking coal, what can be the reduction in cost in Q3 compared to Q2 in terms of coking coal?

Bimlendra Jha: Third quarter is, your guess is as good as mine, so rather than making any forward-looking statement, what I would say is keep our finger crossed that it does not go through the roof again. But if it does, we keep low inventories and keep ourselves very agile to the market. That is all that I can say, but I do hope that it does not go back to the kind of numbers that it has gone in the past, only recent past, but then that is only technically possible when steel prices also start rising, so what happens to that margin, we do not know. But keeping low inventories is one of the best ways to deal with the situation because then you can be in line with the market either which way the wind blows.

Pallav Agarwal: Fair enough, because some of the other major steel players that hinted at probably \$80 to \$100 reduction in coking coal cost sequentially, so was just...

Bimlendra Jha: You might have a better crystal ball than I have.

Pallav Agarwal: Thank you. That is it from my side.

Moderator: Thank you. The next question is from the line of Ashish Kejriwal from Nuvama Wealth Management. Please go ahead.

Ashish Kejriwal: Good evening everyone. Thanks for the opportunity. Two questions. One is, in this quarter, how our thermal coal prices have moved and impacted our profitability and what is the status right now and second question is on ...

Bimlendra Jha: You are saying thermal coal prices, how they have moved in the last quarter with respect to the previous quarter. Is that the question?

Ashish Kejriwal: Yes. My first question is that because you have mentioned about iron ore prices falling by Rs.3000 and coking coal down by Rs.3800, but you have not mentioned about thermal coal prices, which hit profitability.

Bimlendra Jha: 800 or 3800?

Ramkumar Ramaswamy: 800 not 3800.

Bimlendra Jha: Thermal coal has moved negative by Rs.600 to Rs.700 per tonne.

Ashish Kejriwal: Per tonne of steel?

Bimlendra Jha: For the quarter.

Ashish Kejriwal: Rs.600 per tonne of steel, you are talking about, thermal coal?

Bimlendra Jha: Yes, per tonne of steel.

Ashish Kejriwal: What is the status now?

Bimlendra Jha: What is the status now means?

Ashish Kejriwal: Status now means, have you started receiving some linkage coal from Coal India or the auction prices are coming down, so how is it going to impact our profitability?

Bimlendra Jha: No, they have come down slightly, but then these prices move with a matter of weeks in either direction. So on one auction, if we bought it for 1.22, another auction, we bought it for 1.4 and we gave up on another auction because it went up beyond 1.5, so it can happen any which way, and that is why we refrain from making any forward-looking statements on these because God only knows how these things pan out.

Ashish Kejriwal: Understood. The second question is on Australia. In your press release, you have mentioned that Australia reported EBITDA of \$13 million, but in your statement, you were saying that Australia reported a negative Rs.69 Crores, so how to reconcile that?

Bimlendra Jha: Operational EBITDA is \$8 million, operational EBITDA.

Ramkumar Ramaswamy: The rest of it is attributable to the FX impact that was recorded during the quarter. The loans that they had, the loans to JSPML which had to be translated that was the FX impact because of that. Net-net, the Australian subsidiary had a negative EBITDA of Rs.69 Crores.

Ashish Kejriwal: So, \$13 million is your operational EBITDA?

Ramkumar Ramaswamy: \$8 million.

Ashish Kejriwal: In your press release, \$8 million is your operational EBITDA, but, can you elaborate more into it what kind of forex loss is there because that is very confusing?

Bimlendra Jha: No, it is not forex loss. It is the forex gain that was recorded which has been written off.

Ramkumar Ramaswamy: On Australia, Australia had loans that were provided by their holding company, JSPL Mauritius. You are aware that the U.S. dollar has strengthened across all currencies. Because of it, this resulted in an FX translation impact, it is overall resulted loss of Rs.69 Crores. If were to give you the total value of that, sorry, I do not have that right away, but it is largely related to the FX translation in Australia.

Ashish Kejriwal: I will take it offline. Thank you.

Bimlendra Jha: That is the case with some of the other geographies as well. That is just to clarify. So you had operational EBITDA and there were FX translation losses that resulted in a negative EBITDA for some of them at an overall level.

Ashish Kejriwal: Thank you.

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

Indrajit Agarwal: I had a couple of questions. First, in the press release, the one-off in the EBITDA that you mentioned, is it also related to the loans given to JSPML because that should ideally appear on other income or below EBITDA, just trying to understand if that understanding is correct or is this to any other item?

Ramkumar Ramaswamy: No, as I mentioned, this is entirely related to the loans that were given to JSPM.

Indrajit Agarwal: My second question is on the export mix. It has reduced in this quarter. I think earlier, you had said that ideally, we will have 20% odd of your volumes as exports in this year of your volumes of 8.1 million to 8.2 million tonnes, does that guidance still hold or do you think that because of the export duty, your export proportion could be much lower than earlier anticipated?

Bimlendra Jha: If the international prices improve, we may be able to find it better to sell abroad. We are not finding it difficult to sell the material that we are producing. We have, in fact, liquidated most of our inventories. We constantly evaluate where to sell our material and it is not as if we are consciously only wanting to export or a percentage that we want to export. It is a question of what gives us the maximum value. If domestic gives us the maximum value and we have enough demand, we fulfill that demand. If export gives us more value then we will do more of exports. Let us not go by any guidance on percentage. We are not giving you any guidance on percentage. We are only giving you guidance to the extent that we will take the best possible action for creating more value.

- Indrajit Agarwal:** Assuming export prices remain where they are, would there be a risk to the 8.1 million to 8.2 million tonne number as well or that number remains as is?
- Bimlendra Jha:** No, we are actually seeing a very robust demand within the country for the range of products that we have and therefore, we have no reason to believe that we cannot sell that quantity. Price is another matter which the roll-off dice that the God rolls we unfortunately do not have control over.
- Indrajit Agarwal:** Lastly, can you comment on thermal coal availability right now? Are you seeing any concerns, rate availability or actual shipment availability or that is not a concern? Pricing could be volatile, but actual material availability, is that a concern?
- Bimlendra Jha:** Absolutely no concern other than if something else happens that we do not know into the future. As of now, zero concern.
- Indrajit Agarwal:** That is all from my side. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Sumangal Nevatia from Kotak Securities. Please go ahead.
- Sumangal Nevatia:** Good evening and thank you for the chance. My first question is on the coal mines. Now I believe, in the previous question, you did mention some time in fourth quarter, fingers crossed, so in a base case budgeting, what sort of volumes are we factoring for FY2024 and 2025? If you can just versus linkage coal, what sort of cost savings could come in from the captive coal mine?
- Bimlendra Jha:** You are again asking me forward-looking questions. I will only give you a little bit of a hint that it is going to be substantially lower cost than our purchased coal cost. Now beyond that, giving any specific numbers is not something that I would like to engage in because it is a forward-looking statement.
- Sumangal Nevatia:** Okay. In terms of volume ramp up, I understand there are a lot of externalities, which can impact, but in your base case, what is the volume which you are expecting in 2024 and 2025?
- Bimlendra Jha:** Base case volume impact on this is that we would like to use at least 50% of the thermal coal that from our own mines, if not more.
- Sumangal Nevatia:** Okay, but we should have a ramp-up period, right? 50% could be year one or gradually eventually 50%?

- Bimlendra Jha:** That is why said 50% because that would be the kind of an average that we would be hoping for. Once again, when we hope for it, it all depends upon all the clearances, everything that happens and which we are seeing no reason for concern, but who knows when what happens.
- Sumangal Nevatia:** Got it. Secondly, on the volume, I missed the opening remarks, are we continuing to guide for around 8 million tonnes for this year and also, I just want to know, based on our rated capacity, given that next year for the large part, blast furnace would not be coming in, what sort of volume ramp up can we have from 8 million tonnes this year?
- Bimlendra Jha:** It will be only incremental, if at all and only plugging the operational losses wherever we have a little bit of performance improvement and those are the kind of continuous improvement that all steel companies engage in. Most of the time, these are just about adequate to deal with the surprises that come our way, so do not look forward to a great increase as such on this number.
- Sumangal Nevatia:** Okay, but our rated capacity would be 9.6, right? from 8 to 9.6, at least 90%, 95% utilization can be aspired?
- Bimlendra Jha:** Yes, aspiration is always there and value addition aspiration is more than the quantity aspiration. We do aspire to keep on continuously improve. We have very strong programs internally to have this continuous improvement work that we are doing. We have experience with that, so we have all the hope to be able to continually improve our performance and bridge this gap between rated capacity and actual performance. I am not saying that, that would not happen, but what I am also saying is that what we do not want to factor in is that often many of these improvements are simply just about enough to deal with the surprises that the market throws on us.
- Sumangal Nevatia:** Got it. Thank you and all the best.
- Moderator:** Thank you. The next question is from the line of Ritesh Shah from Investec. Please go ahead.
- Ritesh Shah:** Thanks for the opportunity. My first question is for Mr. Jha. I just wanted to understand what are your key priorities, when we look at next three years or five years? That is the first question.
- Bimlendra Jha:** Thanks, Mr. Shah, for this question. Priorities, number one is stable operations; number two is to continually reduce our energy costs because it is great for the environment and great for costs. It is also from an ESG perspective that we want to continually be in the right

direction as far as our ultimate aim of net zero is concerned, so we would continue to work on our projects that allow us to move in that direction. There is, of course, readiness that we would also have in our DRI for accepting green hydrogen as and when that becomes commercially more viable. We would be conducting experiments to make sure that we are ready for it from a technical perspective. However, that switch would not be made unless and until green hydrogen is available in a commercially viable way. Given operational performance, consistency, performance improvement in terms of bridging the gap that I answered in the previous question and becoming greener and more responsible steel producer and that has two ways in it. One is reducing energy costs, which also incidentally improves the EBITDA performance. But far more than that, it is environmentally more friendly and apart from all this, there is a continued focus on our CSR activities. This year, we already had a couple of success stories where president level awards were given for our CSR activities and it is the upliftment of the society, which continues to be our focus.

Ritesh Shah: Thank you for the answers. Few follow ups, this just taking a leap out of the prior question which was asked that you indicated stable operations. Is it possible to couple this thing up with some numbers on scale and incremental ROC as we look at given we have new expansion plants, which are under progress right now that is the first follow up.

Bimlendra Jha: I think you are very smart to ask the same question in a different manner. But you are expecting a forward-looking answer from me and unfortunately, I am not going to oblige you with these answers because I cannot give you any forward-looking statement.

Ritesh Shah: Sure. Just another follow up. How do you see the rationale for having overseas assets? Do you still buy into the argument that the company needs to have overseas assets and really, would it help the company going forward? That is one and secondly, are we looking at any investments under government PLI scheme? What is our thought process?

Bimlendra Jha: First of all, if India had enough coking coal, we would not have had to look abroad, but you know that as far as India is concerned, we are net importers of coking coal from abroad. In India, there are not enough mines available in the coking coal area to be able to give us the raw material security for the future and the volatility is extremely high in this area, hence, it is prudent to keep looking for raw material assets abroad that can provide in the times of high volatility, this kind of a protection and therefore, our overseas assets continue to provide us that kind of an option and it is a protection that is necessary in the steel industry from an integrated perspective. So yes, they will continue to be an integral part of our thinking and raw material security. As far as iron ore is concerned, it is plenty available in India and we would obviously be wanting to do everything in-house in India. But coking coal, unfortunately, we do not have much of options available in India. Thermal coal, we

have got all this Utkal B1, B2 and Utkal C, which we have now under our control. We have got Gare Palma IV/6, which is under control and therefore, on thermal coal front, we are likely to be completely self-sufficient. This is not something for which we would depend on our subsidiaries abroad and that gives us additional optionality of selling it in the external market. It is actually a very good sweet spot that we are getting into. As far as PLI schemes are concerned, of course, we would be utilizing that and let my CFO answer that question.

Ramkumar Ramaswamy: On the PLI scheme, let me just give you a bit of an overview in terms of just the scheme itself. The total outlay for the industry is around Rs.6300 Crores and the investment period is July 29, 2021 to March 31, 2028 and the incentive period is five years commencing from 2023, 2024. The due date for filing of this application was September 15, and we have filed an application, some of our upcoming projects, particularly the HSM and the CRM. They qualify for PLI incentives, so we have made an application and now we would be waiting for the next steps on this.

Bimlendra Jha: That is very helpful. I will join back the queue for more questions. Thank you.

Moderator: Thank you. The next question is from the line of Vishnu Kumar from Spark Capital. Please go ahead.

Vishnu Kumar: Good evening and thanks for the time. You briefly touched about the demand, but could you be a little elaborate on the domestic and also on the international market demand trends that you are seeing?

Bimlendra Jha: On the domestic market, you may be already aware, that India is the only country in the world, which is growing in terms of steel demand and consumption. In India this year, we are expecting 2023 to be around 121 million tonnes in calendar year 2023 as against 113 million tonnes in calendar year 2022. Compare this to the Chinese demand of 914 million tonnes that was last calendar year, which remains stagnant and EU plus U.K., 159 is coming down to 157. At the world level, therefore, if you look at the numbers, 1796 last year is likely to be at 1814 this year, which is around 18 million tonnes only addition at the world level, whereas 113 is becoming 121, which is 8 million tonnes out of that is coming from India alone, so that is the kind of a demand situation that is there. Of course, there are many, many factors including the Ukrainian war that is affecting energy crisis in Europe and that is leading to many industries being affected, demand being affected, that demand contraction being there. As a result, many players have even started shutting down big furnaces. There is going to be also an opportunity as a result of that and as far as India itself is concerned, whether it is the monetary policy or government supporting the localization or strong demand from infrastructure, construction and auto sector, all this is placing ourselves

very well in the right direction. As far as the preference of West to look beyond China for production is concerned, that is also something that poses an interesting opportunity for India and we are becoming more and more capable to meet that shifting of global demand. I hope that answers your question.

Vishnu Kumar: My question was more specifically the near-term trends, which segments you are seeing a good growth pickup or anything like government projects, real estate. Any specific segments you are seeing a strong pickup on demand? That was more my question.

Bimlendra Jha: You are aware that Rs.7.5 trillion capex was announced in FY2023 budget and government also has all these initiatives like Gati Shakti, PLI scheme, etc., which are all supportive of steel demand. We can already see healthy collection of taxes, GST, etc., and all this is specifically translating into a very healthy order book for construction, infrastructure, and renewable energy, which all are dependent on steel. Fortunately, for JSP, our product mix is widely going into these areas, which are strong-demand areas for the country as of now. So we are bullish on demand other than the roll of dice that I keep referring to.

Vishnu Kumar: Got it, and today let us say, if you were to sell within India and export markets, would you say that the gross margin where would that number be at least, I am just asking a relative scale, you will make more in India or exports does help you or which is higher, lower and let us say, it is three months down the line, do you see exports duty going away? That is another separate question and if so, you see that there is a chance of export picking up?

Bimlendra Jha: On an average, at the moment, India offers us better margins than export and it is a combination of two factors, international prices and export duty. Of course, there are many products that we have in our rates that are not affected by export duty and there, we constantly watch the market and whichever market gives us a higher realization opportunity, we go to those markets. We will continue to watch this and should there be an opportunity that opens up either due to removal of export duty or due to improvement in prices abroad, which can happen suddenly, then we are all the time prepared for it and our near-term order book is healthy. We have no reasons to be worried as of now, so that is where we are headed in terms of the margins. It is always a decision every month in our S&OP process we take that decision based on how we see the market and that is how we book it, but every week also we analyze if we need to make any mid-course correction to that plan, but at this moment, India is a strong story with respect to margins.

Vishnu Kumar: Got it, Sir. One final question. The comments in the audited comments that has been given, just wanted to understand the JSPML and Wollongong Coal Limited. Now we do understand from both of them are actually having a negative net worth. Now at some point,

if you were to consider that these you will have to completely write off. There are two questions. One, would you have to take an impairment on your consolidated books and any sense on that, if there is an investment amount that you need to take a consolidated and also, is there any external debt or any subsequent hit that we should see from these two entities to figure the write-off?

Ramkumar Ramaswamy: Maybe I can take that. Firstly, there is no external debt as I have clarified. We have repaid all external borrowers, so there is no external debt. The second is, as I mentioned, we are assessing the performance of the subsidiaries. We are assessing their ability to generate the desired level of returns and we would, of course, have to evaluate that in the context of impairments that you mentioned. So I think the exercise is on and once it is completed, we will definitely keep you suitably updated.

Vishnu Kumar: Any rough number that we can possibly see because if Wollongong we read that the net liabilities itself is about Rs.2700 Crores of the auditor comments, so just trying to get a broad sense. Would that be a very big number or most of it is actually already part of the standalone into consolidated, so the numbers may not be very big just some materiality is what I am trying to understand.

Ramkumar Ramaswamy: As I said the process of review is currently in progress. We will have to do a valuation. A lot of things have to get completed, so it will be very premature to give you an indication of the value at this point of time.

Vishnu Kumar: Got it. Thank you.

Moderator: Thank you. The next question is from the line of Kirtan Mehta from BOB Capital Markets. Please go ahead.

Kirtan Mehta: Thank you for giving this opportunity. Just going back to the coal mine projects where you stop giving...

Bimlendra Jha: We have stopped hearing your voice. Whatever we stop giving, the coal mines, please unmute yourself.

Kirtan Mehta: It was sort of referring to the coal mine projects that you were saying you are targeting around average 50% utilization level. In terms of sort of what I understand is the total project potential would be around 15 million tonnes, so would that mean that 6 million to 7 million tonne of the production across five mines we are targeting in FY2024 and could you also give us a start-up date for each of the five mines that you are targeting and typical ramp-up period to achieve 100% capacity outputs?

- Bimlendra Jha:** What I answered to you was from a utilization perspective that we are hoping to reach an average of 50% of our thermal coal requirement on an average during the year would be from the mines. That is the answer that I gave you, not how much output we would have from the mines.
- Kirtan Mehta:** Would you be able to just clarify the output that you will be targeting from the mine at least the start-up date for each of the mines that you are targeting and what would be the typical ramp-up period?
- Bimlendra Jha:** No, at this moment, I do not have the numbers and I would not like to again make a forward-looking statement on the subject.
- Kirtan Mehta:** Another question was related to your capacity specification where you have suggested that you may not expect a much improvement into the output because some of the surprises might eat away those improvements coming through. So in relation to the sort of 9.6 million tonne capacity utilization level, what is the sustainable average utilization that we should look at? Is it 85%? Is it 90% or is it 95%? Where should we be sort of assuming in a normal year or average through the cycle, whichever way you want to answer that question.
- Bimlendra Jha:** Yes, average through the cycle of course, has all these big shutdowns that happened in our blast furnace, etc., I would not be able to put my pen to paper without actually going through those numbers, saying that when was the last we re-line, when would be the next re-line, etc. Those are the kind of things that we would have to go through in order to be able to answer this question, but I would say that on an average above 90% capacity utilization is considered to be a good capacity utilization in the steel industry.
- Kirtan Mehta:** Does JSPL have a potential to sort of achieve 8.5 million, 8.6 million, which would correspond to 90% utilization over the next one or two years or are there any constraints which stop JSPL from achieving the same?
- Bimlendra Jha:** The only constraint is our own brain power. We are hoping to constantly upgrade our skills, train our people, make sure that we are making right and intelligent choices, taking the maintenance at the right time, not making any wrong decisions. These are the only constraint. It is all about people, about their skills, about that will do win and more recently, first of all, do not believe in these capacity numbers at all. Recently, we have had a day when we produced what we never thought we can produce from a single BOF vessel, we were able to produce 54 heats in one day. It never has happened before and I am not aware of any other steel company that has been able to do it, so what do I call that as a capacity.

Sometimes, these are the kind of things that when people are enthused, motivated, rightly skilled, they are able to surprise you with numbers where capacity has no meaning.

Kirtan Mehta: Right. One more question, if I may. You also made a comment that during some period, you find buying from OMC cheaper than producing at your own mines. Typically, the buying from OMC will not cost you less than Rs.2500 to Rs.3000 per tonne of iron ore, so does that imply that at some point of time, your production costs are even higher than that number?

Bimlendra Jha: No, that is not how it is. There are many, many constraints that we sometimes face. For example, the kind of ore that you are mining, you may not get the right quality for the DRI purpose. At that moment, rather than beneficiating your own ore and spending a little more money over there, you may be better off just buying it off OMC, so that cost is always a cost that is in comparison to the choice that you have in front of you at a given point in time and that is where we are in a very sweet spot is what said, that we have these choices that we can execute without overburdening ourselves either on production front or on our ability to source these materials.

Kirtan Mehta: Thanks for this insight, quite helpful.

Moderator: Thank you. The next question is from the line of Satyadeep Jain from Ambit Capital. Please go ahead.

Satyadeep Jain: Thank you. Good evening everyone. A couple of questions on the coking coal, just wanted to understand. I think from the press release also, it seems like there is a slightly slower ramp-up in the Australian coking coal mine. Initially, the expectation was for a certain volume target and FOB delivered after washing cost of, if I am not mistaken, \$150 to \$200 per tonne. It looks like it has not been able to achieve that number yet. But what is surprising you at that mine compared to other expectations and can we expect some improvement in future? That is the first question.

Bimlendra Jha: Yes. For the Australian mines, we have faced certain issues there and it was related to some equipment, it was related to washeries, it was related to the way we were planning for our mines and we have taken some actions to tighten those kind of things and make sure that we have the washery that comes up. These things are going on as we speak and the performance improvement we can see on a day-to-day basis. However, there are also in an underground mine, there are lots of uncertainties that are there. These uncertainties we are dealing with, but we are seeing a constant improvement trend and we do hope to be able to remain on that track.

Satyadeep Jain: Okay, thank you. Second question is on the capital allocation. The debt has reduced significantly to Rs.7000 Crores. There is a capex plan that you have for the next few years it looks like about Rs.5000 Crores annual capex, but if market conditions are okay, that should be met from internal cash flow, so the target of being net debt free remains intact and there will be no organic or inorganic growth until you achieve that net debt, apart from the ongoing capex, no additional organic or inorganic growth did you achieve that net debt target? Is would that be a safe assumption?

Ramkumar Ramaswamy: As we have stated before also, we would like to operate on a fairly conservative net debt to EBITDA of less than 1.5% through the cycles, so I think that is what we have been repeating. In terms of organic or inorganic growth, we will be constantly evaluating options. You have a slate of projects that we have, there could be inorganic opportunities that might come up, so we will have to evaluate them and if they are going to be value accretive, we will make selective choices at this point of time.

Satyadeep Jain: But product mix is going to be fairly balanced between flat and long the ongoing expansion. If you look at the inorganic opportunities, would there be a presence to a SKU to get may be have inclination towards more long-term plans, if you look at any opportunity?

Bimlendra Jha: Our bias is towards value, not towards long or flat and we will maintain that bias.

Satyadeep Jain: Just if I can squeeze one quick question. You mentioned green hydrogen ready. Hypothetically, let us say, the cost of hydrogen is competitive in the next decade or so. The current DRI operations and given your own experience in Europe also, can the existing DRI operations take hydrogen as is or do you have to maybe make some operational changes or maybe have some higher capex to be able to make it hydrogen ready?

Bimlendra Jha: First of all, let me tell you the syngas that we use is already having 52% to 56% hydrogen in it. Now that means we are already using hydrogen as a reduction in our DRI. So it is not a new technology that we are going to use. Now the question is that can we try and increase this percentage from 52 to 56, so let us say 70%, 75%, 80%, using even gray hydrogen and then wait for the time when green hydrogen is available and economically available in order to be able to then simply switch, so we are a), already experienced with using hydrogen as reductant in our DRI; b), we are experimenting with what it takes to increase the percentage of hydrogen in the current situation and if there are any modifications, etc., required, we are looking into that one and therefore, as on date, the most hydrogen-ready company, certainly India, if not in the world, to be able to leverage the opportunity as and when it comes.

Satyadeep Jain: Thank you so much.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference over to Mr. Amit Dixit for closing comments.

Amit Dixit: I would like to thank everyone for attending the call and thoughtful discussion we had this evening. I would now like to hand over the call to Mr. Jha for any closing comments. Over to you.

Bimlendra Jha: Thank you very much. I think these were very good questions and a nice conversation that we had, at least I enjoyed it. I hope you did. It is good to ask these questions and keep us thinking. With your questions, we also start thinking of new things. So please keep coming back to us with your intelligent questions like these so that we can keep thinking of new things that we can do. I hope that you have been able to see that as far as operational performance is concerned, hopefully, you are able to see very clearly that JSPL has returned on operational basis much better results than any of the results declared so far and we are on a positive trajectory with the right kind of product mix at the moment for where India is growing. We hope to be able to continue on our journey towards zero debt at JSP level and we also hope to be able to continue to work on our organic growth program on time, in budget and in full, so this is where we are headed. Thank you for your support and have a good day.

Moderator: Thank you. Ladies and gentlemen, on behalf of ICICI Securities Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

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