"JSW Steel Limited Q4 FY22 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY22 Earnings Conference Call of JSW Steel Limited. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ashwin Bajaj – Group Head of Investor Relations. Thank you and over to you, Sir.

Ashwin Bajaj: Thank you, operator. And a very good evening, ladies and gentlemen. This is Ashwin Bajaj, and it's my pleasure to welcome you to JSW Steel's Earnings Call for Q4 and Financial Year 2022.

We have with us today, the management team represented by Mr. Seshagiri Rao – Joint MD and Group CFO, Mr. Jayant Acharya, who is now Deputy Managing Director and Mr. Rajeev Pai – CFO.

We will start with opening remarks by Mr. Rao and then open the floor to Q&A. With that over to you, Mr. Rao.

Seshagiri Rao: Good evening. We welcome you to the briefing of our Q4 FY22 Performance.

In the beginning of the calendar year 2022, we expected stability and the recovering from the disrupted supply chain situation caused by the COVID and other developments. This assumption was based on very strong recovery that has been seen in the year 2021, but unfortunately the conflict between two large commodity and exporting countries that is Russia and Ukraine and also the slowdown in the second largest economy i.e China, both together really exposed several fault lines that choked the commodity supply for the global manufacturing industry, and it has created a huge amount of issues which were not anticipated.

In this situation, as far as India is concerned, quarter-on-quarter the steel consumption picked up and we have seen over 7% growth in India's steel consumption. In spite of all these issues which arose due to the conflict between Russia and Ukraine and slowing Chinese economy, JSW Steel has performed quite well with highest ever volumes of production and sales.

On a standalone basis we could achieve 5.01 million tonnes of crude steel production, which is a 13% growth sequentially and the sales without BPSL 5.13 million tonnes, it is a 31% growth. We could reduce our inventory by almost 3,86,000 tonnes in the last quarter. If I see year as a whole, we have achieved 17.62 million tonnes of production, almost 95% of the guidance which we have given. Similarly, sales side for FY22, we achieved 16.35 million tonnes, again 95% of our guidance.

In the last quarter because of the drop in global steel prices, Indian steel prices also there was volatility, overall, we have seen our blended realizations coming down by 3% quarter-on-quarter, but at the same time coking coal prices surged globally which had an impact on our costs. The cost went up, so they went up quarter-on-quarter by 3%. So, the impact of lower blended NSR and higher blended cost had an impact on the EBITDA per tonne on a standalone basis. It came down by Rs. 3,475 per tonne, it was Rs.13,505 per tonne. But at the same time, as far as the domestic subsidiaries and the global subsidiaries have done reasonably well, we have made an EBITDA of $39 million in our US plate and Ohio operations. We have reduced the losses in our Italian operations to €1 million in the last quarter. So, with this the EBITDA on a consolidated basis, including Bhushan Power and Steel was Rs.9,184 crores. What is notable here is that in spite of drop in EBITDA per tonne, the volumes which we have achieved has made us to maintain or show a 1% growth on a consolidated EBITDA to Rs. 9,184 crores as against Rs. 9,132 crores in the previous quarter.

There was an exceptional item of Rs. 741 crores. So, we have impaired our investments in the West Virginia coal mines, because when we acquired this coal mines in the year 2008 and 2009 and thereafter, our minimum commitment in each year we have agreed could not be done because there was not enough resources in some years, there were some difficulties in some years. So, there was a dispute which was going on. We lost in the arbitration, so due to which we had to make provision towards impairment of these investments. Plus, a small impairment in the assets in India, the Jharkhand state, where we had made some investments. So, total together is Rs. 741 crores in the consolidated accounts where we have made the exceptional impairments here. So, after adjusting this Rs.741 crores the profit after tax was Rs. 3,343 crores.

Even though EBITDA was higher sequentially, the profit after tax came down quarter-on-quarter majorly due to this exceptional item which I just explained, plus commissioning or capitalization of the expansion at Dolvi. So, incremental interest and depreciation has also come in this quarter. That's why you find profit after tax was lower compared to previous quarter.

What is also important here is that our net debt was brought down to Rs. 56,723 crores. We have repaid Rs. 9,589 crores in the last quarter. So, debt-to-EBITDA, debt-to-equity everything has improved quite substantially relative to the previous quarter. Debt-to-EBITDA was 1.46x and debt-to-equity was 0.86x. Our weighted average cost of debt also has come down to 5.67%.

The acceptances on revenue account have gone up to $2.1 billion. Because as you are aware, the coking coal prices have gone up so due to which even though the volume of imports has not gone up in relative terms, the acceptances have gone up on revenue account, but the capital account we have brought down our acceptances further down, outstanding was only $27 million as on 31st March 22.

The capital expenditure program which we had undertaken many of the projects got commissioned, including 5 million ton at Dolvi. It ramped up quite well in the last quarter. What is yet to be commissioned if we look at it, Vijayanagar 5-million-tonne expansion which is going on. Similarly, Coke Oven plant of 3 million tonne where it is advanced stage of implementation.

In downstream at Vasind, Tarapur and Kalmeshwar, excepting CAL and tin lines, balance all are commissioned.

Bhushan Power and Steel expansion to 3.5 million tonne will get completed by September of this year and 3.5 to 5-million-tonne expansion is also underway that will get completed by FY2024. Capital expenditure in the current year will be Rs. 18,000 crores, we will be spending on these projects in JSW Steel and another Rs. 2,000 crores in Bhushan Power and Steel so total together Rs. 20,000 crores.

Considering the excellent performance for the year as a whole, where we have made highest ever net profit for the year of Rs. 20,938 crores and then EBITDA of Rs. 39,007 crores. In line with the dividend policy that has already been communicated between 15% to 20% of our consolidated net profit, we will declare dividend. So, this year the Board of Directors have recommended for the approval of the shareholders a dividend of Rs. 17.35 per share of Rs. 1 in JSW Steel.

Ispat Specialty Steel is acquired by JSW Steel in the year 2018 September, along with a private equity investor. So, as you have seen our track record as and when we acquire any distressed asset in India, we park it as a separate company until turnaround is complete, then we will bring into the parent company. The Board of JSW Ispat Specialty Steel and also its holding company which is called Creixent Steel and JSW Steel Board of Directors have approved a scheme of amalgamation through merger of these two companies into JSW Steel. The appointed date is 1st of April 2022. The swap ratio has already been communicated to the market. For every 21 shares of JSW Ispat Specialty Steel including the conversion of outstanding compulsorily convertible preference shares they will get 1 share of JSW Steel. It is 21:1. Similarly, the holding company when it gets merged, for every two shares they are holding in Creixent, those shareholders will get 3 shares in JSW Steel. So, these two together, the number of shares that would be issued after cancellation of the holding held by JSW Steel, will be 2.8 crores. So, that is approximately 1.15% dilution.

The guidance for next year, that it this financial year, FY23. So, 25 million tonnes of crude steel production, which is a 16% growth over the previous year and the sales 24 million tonnes, which is a growth of 20% over previous year, this is what we would like to achieve in this year.

Then the issue which is currently being debated is the imposition of export duty and export of steel from India. In our view, it is a very temporary measure. If we see last precedence in the year 2008, Government of India in similar circumstances where inflation was also going up at that time, imposed export duty on steel, but it was different percentages based on grades of steel, higher the value addition lower the export duty 5% to 15%. But what was important is they withdrew the export duty within a month on flat steel products and for long products it was there for a few months. Seeing that precedent, we expect the kind of measure which is taken to contain inflation which is good for every one of us. Therefore, we feel it is temporary. It will get lifted soon after the things come under control.

But at the same time, if I look at Indian steel demand growth in the current financial year, we expect it would be in the range of around 7.5% on a base of 106 million tonnes. So, there will be incremental demand of 8 million tonnes in India. And also, there is an import of close to 5-million-tonne imports into India is happening. Therefore, it is possible to sell in the domestic market to meet the incremental demand and also to substitute imports. These are the two things which we will continue to focus and at the same time it is our duty to service our customers with whom we a long-term relationship globally, where we have been exporting steel for over three decades. So, we continue to do that in spite of the duty that is prevalent today.

So, with these comments, I will stop here and any clarifications you need we are all here to clarify. Thank you.

Moderator: Thank you very much, sir. 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: I have two questions. The first one is essentially on coking coal. What was our coking coal cost in dollar terms in Q4 FY22? And, what do you expect it to be in the current quarter?

Seshagiri Rao: Last time we told you that there may be a $50 increase in the coking coal over Q3 and Q4. So, it was $52. Our CNF cost was $308. Then we expect this quarter, current quarter as coking coal prices really have gone to the roof globally, we expect maybe another $125 impact will come in this quarter.

Amit Dixit: The second question is on your sales mix. So, we saw 28% of exports in this year. Now, what have you budgeted for FY23? And what would be the likely split between semis and finished product this year in FY22?

Jayant Acharya: We continue to budget 15% to 20% of our sales as export on an average. Depending on the market situation, it fluctuates. The last quarter, you would have seen the results, the exports are about 21%. Depending on market dynamics, we continue to be flexible to look at exports. But for the next year, I would say it will be around 15% to 20%.

Amit Dixit: And will it be more of semis because duties on semis are not there or you will continue with the same product mix?

Jayant Acharya: It will be a mix of products which we usually do. I don't think it is going to materially change the mix because today there is a duty and tomorrow there is none.

Seshagiri Rao: Our customers with whom we have long-term relationships because duty has come, we can't say use semis. What he needs we have to give. We continue to service those customers notwithstanding that the duty is there.

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

Pinakin: Just looking at the volume guidance for FY23, basically it implies versus 19.7 million tonnes of sales around 23.3 million tonnes, around 3.5 million tonnes more. And given the export duty, if the export duty is not removed in the near term and export realizations are not remunerative, should we then expect this volume guidance to be at risk especially given that the Indian demand growth has been lackluster so far?

Jayant Acharya: If you really look at the Indian growth in the last quarter, it has been quite strong. And I think the way the projects which have been announced in the infrastructure space by the government, the announcements are very encouraging. According to us, the announcements will consume about 20 million tonnes of steel over 2.5 to 3 years. So, on a ballpark basis, the infrastructure project should add incremental volume of 7 million tonnes. So, that is one lever which the domestic market will see. The second lever as Mr. Rao was also saying is that the imports which are coming into the country in the range of 5 million tonnes is something which can be replaced through the domestic sales. And the third lever is, as we said, we will continue to look at our export volume in a measured way by servicing customers who have been doing for years. So, I think with this mix, we are reasonably confident that the measure which looks to be temporary to control inflation, we will be able to sail through the guidance which we have given for the year.

Seshagiri Rao: Over and above, I wanted to add Pinakin is one side when we export there will be lower net sales realizations because of the duty implication. Cost side also you have to look at it. When iron ore duties were imposed on export already NMDC reduced the price by Rs. 720 -to 750 per tonne. We expect some more reductions considering international prices and also the quantum of export duty involved. Similarly, if we look at the 2.5% of duty on coking coal being not there in future, so that also will give some benefit in the cost. Even though overall coking coal price is going up as we are guiding at $125, if we take into account the benefit of cost that would come in, it will neutralize to some extent the higher duties we have to pay and also the cost reductions to be taken into account.

Pinakin: Understood. That is very detailed. Now moving on to the question which is on everybody's mind on steel prices. How has steel prices in flat products in India trended in the month of May pre and post the export duty? Basically, how much are prices down from the peak prices that you had in the month of May? And in the near term, what kind of price decline does JSW foresee?

Jayant Acharya: If you look back actually internationally the prices started softening from middle of April onwards, and we saw some kind of wait and watch in the international markets as well. So, prices have corrected internationally. We see a reflection of that in the domestic market as well. And the export duty announcement in addition to that is also causing some sentimental impact as well. So, we do see the prices correcting, and I think it's difficult to give a number at this stage, but we see that the numbers are falling from what we started the month with. We corrected in the beginning of the month, 1st of May versus the April month price, we corrected our prices by about Rs. 2,000 plus already. We expect maybe some larger correction to come in between now and the 1st of June.

Moderator: The next question is from the line of Sumangal Nevatia from Kotak Securities. Please go ahead.

Sumangal Nevatia: Just continuing on the pricing question, first is, is it possible to share what was the April prices versus fourth quarter? And secondly, since the duty have we begun to pay export duty on our exports or is it on a prospective basis only? And lastly, what would be the difference in prices of export versus domestic prices at this moment?

Jayant Acharya: So, first on the export duty, whatever vessels which are under shipment we would be paying the export duty and shipping it out, whatever is not customs cleared. Whatever was at the port, which was customs cleared would not need any export duty payment. Whatever we have to clear with export duty payment we will be doing under protest because under Clause 1.05 of the Foreign Trade Policy, in the past precedence is there that the LCs which have been issued and contracts valid, those will be allowed to be exempted. So, that is the assumption based on which we would be paying under protest. As far as the pricing goes, I think, as I said, the clarification from pricing we have given is April to May, as I said, Rs. 2,000 correction has already taken place. In long products the correction was a little higher and we would be adjusting the prices between now and 1st of June to reflect the correct market trend. But on an average basis, if you recall, December and January prices were quite low entering into quarter 4. So, if you take on an average quarter 4 and you would compare with an average of quarter 1, I will still feel that we will better in terms of price realizations ex-plant vis-à-vis quarter 4. I won't guess the number at this time.

Sumangal Nevatia: Understood. That's really very helpful. And what would be the price difference on exports after paying export duty today versus domestic realizations?

Seshagiri Rao: Generally, if you see earlier when export prices were higher domestic prices have not gone up to the extent of export realizations. The point which I would like to highlight is that domestic prices are dependent upon the landed cost of import. It doesn't depend upon export price. So, today, if you look at the landed cost of imports at the prevailing global prices, the Indian steel prices are not at premium, they are almost equal. Therefore, I think that is the right comparison we have to make than looking at export realization due to implication of 15% duty.

Sumangal Nevatia: Understood. All right. Second question is on the cost front. I mean, given the overall inflationary environment, apart from the raw material costs, is there any other cost which could hit us in terms of freight, power, other expenses, number one. And number two, what could be the impact of this recent approval of exports from Karnataka and also our captive mines ramping up. So, if you could just share your thoughts on these 2-3 topics.

Seshagiri Rao: As you are seeing that the Honorable Supreme Court has lifted the ban on export of both pellets and iron ore from Karnataka, but that is now ineffective because of this export duty which has come in both on pellets and iron ore. As regards to ramping up our capacity is concerned from captive iron ore sources, yes, we are ramping up further. The plan for achieving the guidance of 25 million tonnes of production, whatever iron ore that is required, 53% will be sourced from captive sources next year. So, we are ramping up both in Karnataka and also in Orissa.

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

Indrajit: I have a few questions. First, have the auto contracts for the April to September half year been finalized already, or those are still under negotiations? And how are the prices versus the last half year, that is second half FY22?

Jayant Acharya: We have finalized the auto contracts with some automakers. I think and the others are in discussion stage and would be concluded in the next few weeks.

Indrajit: And how are the pricing versus what we had in the last half year, like say 2H 2022?

Jayant Acharya: We have concluded between Rs. 11,500 - to 12,000 per tonne with some of the majors.

Indrajit: Sure. Thank you. Secondly, I wanted to understand the coal sourcing, have you been sourcing anything from Russia and what is the kind of mix? What is the kind of discount we are getting if we are doing any coking coal sourcing from Russia?

Jayant Acharya: Russia, we have been sourcing certain coals in the past as well, prior to this Russia-Ukraine conflict. So, we continue to do the coal sourcing which we have been doing in the past. We haven't really gone up much beyond that as of now, because changing the coal blend overnight is also difficult. The logistics challenge also in Russia, because of the shipment from Baltic or from Black Sea has also become more difficult. So, even if you want to do more, it may not be immediately possible.

Indrajit: Any price or cost advantage we are getting from the existing portion? Is there a discount between say Australia FOB versus Russia? Or the discount has expanded versus what it was historically? Any color you can give over there?

Jayant Acharya: Russian coals are cheaper than the Australian coals today. As we see the prices have gone down, their prices into China which you would see have been lower post the sanctions which have been imposed on them.

Moderator: The next question is from the line of Alexandra S from William Blair. Please go ahead.

Alexandra S: I was wondering if you can give an indication as to where are iron ore prices locally? And also, when we look at steel prices locally right now, but also in general, is there a spread to China FOB prices? Can you give an indication as to where local steel prices are now in India? Thank you.

Jayant Acharya: Local steel prices in India, I think the current market sentiments which are prevailing, it will not be right to give that number as a local steel price today because people are on a wait and watch mode. I would say that the prices which will be announced beginning of June will reflect the right numbers. Somewhere in the range of whatever is the imported landed prices today, as a number I think is what we would be reflecting around our June price announcements. But we will wait for a few days to let the market cool down and then announce our prices.

Alexandra S: Okay, thank you. And for iron ore?

Seshagiri Rao: For iron ore, today NMDC has reduced the prices in the last few days by Rs. 750 for fines. So, we expect some more correction that would happen. Anyhow, even in the normal course, notwithstanding the current imposition of duty, because the demand for iron ore from China is reducing. So, that is the reason why the domestic prices are correcting. So, we expect more correction in the prices in the days to come.

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

Ritesh Shah: Two questions. First question is in the prior quarter we had a provisioning of Rs. 1,050 crores. This was pertaining to IBM notified prices. And if I remember it right, we had provision till the month of March. Just wanted to have an update on the legal side and the financial impact on the numbers for the quarter and how should one look at this variable going forward. That's the first question.

Seshagiri Rao: As mentioned last time we have filed our case in the High Court of Orissa. Out of the three issues which we raised, two in our favor and one which we have lost; so what was in our favor was whether High Court of Orissa had the jurisdiction to decide that in our favor they have the jurisdiction. The second was when the show cause was issued to JSW, when we clarified by way of a letter, before that letter even examined, they revised the IBM price. So, natural justice was not given to us. Therefore, our reply was to be examined afresh. That also has come in our favor saying that IBM should look at that. But the third where IBM arbitrarily can decide the price or not without considering the bonafide sale made by JSW Steel, that has gone against us saying IBM has a right to decide the price. So, now we have 90 days' time to go for an appeal to the Supreme Court. So, we have time up to later part of June. So, we are examining to file an appeal in the Supreme Court in this regard. In the meantime, as far as the accounts are concerned, - the case of deciding the IBM price is in the favor of IBM, we have made provisions fully even in this quarter.

Ritesh Shah: Would it be possible for you to quantify it, given it gives a better sense of actualEBITDA per ton.

Seshagiri Rao: Last quarter already we have given that number over Rs. 1,000 crores. In fact, the IBM price in this quarter was higher than the previous quarter. So, it is in the similar range again as far as the total quantum of the impact in this quarter.

Ritesh Shah: Sure. Sir, my second question is for Jayant sir. You indicated Rs. 11,500 - 12,000 per tonne lower pricing with few auto majors. I just wanted to understand the rationale behind the price decline, the underlying variables, if you could provide some color over there that would be quite useful.

Jayant Acharya: Ritesh, sorry if I was not clear. We were negotiating for a price increase with the auto majors since they had a fixed contract till March. So, the discussion was for the correction starting 1st April. So, what we are discussing is the correction positive increase between 11.5 to 12. But let me also qualify that these are few which we have done now. The others are still under discussion.

Ritesh Shah: We are looking at an increase of Rs. 11,500 to Rs. 12,000, that's right?

Jayant Acharya: Yes. So, there is a formula which works for the prices, how they have moved over the past period and that gets reflected in the pricing for the next half or the next quarter.

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

Satyadeep Jain: A couple of questions. Thank you for the historical context going back to 2008. If I understand correctly at that time after the export duty was levied, both Tata Steel and JSW, steel makers in general, agreed to lower the prices by 10% or Rs. 4000 per tonne at that time. And agreed to keep their prices similar and then the entire GFC happened anyway prices started collapsing. If we look at the historical context and where we are, and obviously government is also looking at some kind of direction or some kind of statement of intent on lowering prices, can the cost structure is different pointing to higher coking coal costs also offset partly by lower iron ore prices, looking at the historical context, what are the similarities and what could be somewhat different compared to what we saw in 2008? That's the first question.

Seshagiri Rao: As far as similarities are concerned, one major similarity is it is temporary. At that time, it was withdrawn, even this time it will be withdrawn. The number two is, whether steel companies reduce the prices in the domestic market, because there was an export duty, to that point I wanted to clarify once again, that the domestic prices are based on landed cost of imports. Export prices are concerned, the realizations are concerned, sometimes export prices were higher than the domestic prices, which was there for the last two years. Sometimes export prices could be lower than domestic price. So, this is no relationship between the two. But the demand supply dynamics will definitely play a role as far as the domestic prices are concerned. So, we have to wait and watch how it will shape. 18.4 million tonnes of exports last year which was done from India, if we just analyze how much exports can continue to be there in this year, in spite of 15% duty, that also I think we have to wait and watch how it will shape up. But as on date only thing which we can clarify is that the domestic prices majorly dependent on landed costs of imports, if international prices get corrected, domestic prices also will get corrected.

Satyadeep Jain: Just a follow up on that one would be, if let's say the export duty is not lifted in the next few months, you are looking at a large CAPEX in this year, at least in next year, is there a possibility of the rethink or recalibration of the CAPEX just in case the market globally remains somewhat soft and export taxes are there?

Seshagiri Rao: As far as the capital expenditure program is concerned, whatever we have already undertaken where it is in advanced stage of implementation, like 5-million-tonne expansion at Vijayanagar or the Coke oven plants or the downstream units, these are all the projects which we have taken up earlier and they are under implementation and orders have already been placed and LCs are opened. I don't think there is any scope for review as far as these projects are concerned. Then if the export duties continue to remain for a very-very long time, then we have to look at in future what we would like to do. And at the same time, it is definitely a loss for India to leverage the opportunity that is available right now to increase our exports from India and also to meet our domestic demand and creating capacities in India.

Moderator: The next question is from the line of Vishal Chandak from Motilal Oswal Financial Services. Please go ahead.

Vishal Chandak: My question was again with regards to the export duty. Generally, what we have seen is whenever such a move is taken by the government, there is a process of consultation, either formal or informal. So, was there any kind of an indication from the government on reduction of prices or in terms of providing some sort of an incentive to any of the sectors for consumption over there, or it just I mean arbitrarily without any information without any consultation?

Seshagiri Rao: There is no consultation as far as industry is concerned. I don't think on export duties or import duty reductions they will consult the industry. They will take the feedback from time to time about what is happening. The major driver for this decision is the very high inflation in India. We all want inflation to be reduced in India. Therefore, whatever steps that are taken, we support those steps, but in our view it is quite temporary and transitory.

Vishal Chandak: Okay. Just lastly, one more point after the announcement of this export duty, the trade market in the trade market the prices have corrected very sharply. The indication that we understand is that the correction could be in the range of Rs. 6,000- 7,000 per tonne and in some cases even higher. So, in that scenario, would the prices of steel mills actually adjust to the trade levels, or it would be still higher than the trade levels. How do you look at this scenario now?

Jayant Acharya: Vishal, that's why I said that we will have to wait a little bit for the market reaction to cool down, because I think right now the numbers which are floating around in the market may not be reflective of the real price. We should allow some time for the market to settle down, understand the scenario and then take a view. So, I think it would not be right to estimate a price of how much it will go down by. There will be some correction, there is no doubt about that, but the amount I think we would like to wait for a week and just see how it goes and then announce the prices.

Moderator: The next question is from the line of Vikash Singh from Phillip Capital. Please go ahead.

Vikash Singh: I just wanted to understand are EC limits for all of the mines combined are much higher, but we are still guiding for 53%-54% of the captive consumption. So, just wanted to understand, are there any constraints or the outside prices are still so lucrative that we don't want to use our own resources?

Seshagiri Rao: If we look at total production of 24-25 million tonne, the kind of iron ore requirement will be 50 million tonnes. If it is 50 million tonnes, when we say it is 53%, that means we are using full capacity of our captive mines.

Vikash Singh: Because I saw in your presentation only somewhere, that the total EC limit is 45 million ton, all mines combined. So, it is lower, 25 million tonnes, you are saying now?

Seshagiri Rao: At Karnataka, we have only 7 million tonnes of captive. It doesn't make sense to bring all the iron ore that is required for Karnataka from Orissa. So, therefore Karnataka will always get iron ore from captive and also buy in the local market in Karnataka. As far as Orissa is concerned, if you look at plant-wise as I mentioned in the earlier calls, if it is Dolvi the captive is much more percentage, similarly, the Salem. Plant-wise is higher, but average basis if we look at, the percentage is 53%.

Vikash Singh: Sir, my second question is that we are talking about import parity prices, but the government still have one bullet which is 7.5% import duty, so should we take this into account that in case if the domestic prices doesn’t come down significantly, then probably that will be removed and we will force to sell at the parity prices which could be 7% to 8% lower?

Seshagiri Rao: Even today when we say imports into India are 5 million tonnes, 70% of this steel is at 0% duty only that is coming from FTA countries. Even the balance 30% if somebody analyses, they are coming under advanced license. There also duty is not there. So, therefore, a significant portion of the imports today are at 0% duty, so therefore 7.5% duty which you are talking about is ineffective.

Moderator: Thank you. The next question is from the line of Amit Murarka from Axis Capital. Please go ahead.

Amit Murarka: First question is on the export duty exemption for semis, so I just wanted to understand like, is this intentionally exempted or is it more like a temporary oversight and this could be included into the duty structure as well soon enough, how do we think about this?

Jayant Acharya: We will check with the government, but I think the semis if you look at world over usually import barriers are not put and for that matter the export barriers reflective of that is not put, so that is the way we see it today.

Amit Murarka: And just on the auto contracts, like while I understand some of them have been concluded, but just going ahead I am just thinking here like given that export prices are going to be much lower or, let us say, net realization will be much lower, could there be more aggressive bargaining by the auto guys who would actually have a better bargaining power in this situation now to take, let us say, prices closer to export parity than to import parity just for the auto contracts while domestic, I understand prices will stay closer to import parity, so just if any thoughts over there as well?

Jayant Acharya: No, I think negotiation is a part, what we need to understand is that what we supply to the auto industry is basically tailor-made material in various special grades which is made for various parts of their body, so it is not something which is overnight replaceable by them, nor it is something which I would say they can import tomorrow immediately. So, the negotiation, yes, I think negotiation in the auto industry will do and continues to do, but my sense is that their requirement is quite good because their expectation for this year, FY23 the commercial vehicle manufacturers have a very good view with respect to the demand this year. Similarly, passenger vehicle, in spite of the chip shortage, we see an increased requirement, so my sense is from a demand perspective, the auto industry will require more steel this year. Negotiation is the part of the business process, so that will continue.

Amit Murarka: And lastly, could you just specify the number of iron ore revenue booked in the topline this time?

Seshagiri Rao: Later our investor relations department will provide that.

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

Vishnu Kumar: Just a macro question, I wanted to understand your thoughts as to how you see coking coal behaving for the rest of the year? And additional one would be that if Chinese cost of coking coal through Russia becomes much cheaper, do you think that their prices could see sharply lower than what it is now in the second half of this year?

Jayant Acharya: I think the divergence of coking coal prices would not continue for a very long time. You see already from a demand perspective there are challenges as far as steel is concerned in the international market. There is a pressure in terms of margins on every steel producer today in the world. So, my sense or our sense is that the coking coal prices will undergo a correction. In the last two days, if you see already the prices have corrected almost by $55, so going forward, it will correct. The steel prices are correcting ahead. The coking coal prices should correct with a lag.

Vishnu Kumar: And secondly on the Chinese cost structure being lower because of cheap Russian coking coal, how do you see that playing out?

Jayant Acharya: China may have a lower coking coal, let us say cost from Russia, but I think they have different challenges within the country which is basically inhibiting some of the manufacturing hubs there to produce, but our sense is that on the kind of impetus which the Chinese government has given off late, the intention is to revive the economy, so therefore from a demand perspective, situation will improve, we do not see much steel emanating out of China for exports.

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

Ashish Kejriwal: Sir, my question was on account of global demand scenario especially when we are looking at some kind of interest rate increasing in US and recession fear in Europe, so are we still feeling that his could be temporary and we are in the super cycle?

Seshagiri Rao: No, I think the super cycle concept in my view will remain intact. One is the demand that is driven by the energy transition even though it has taken a little back seat right now, but it remains on the top of the agenda. The second is this war between Ukraine and Russia, that has also triggered for many countries to increase their defence expenditure which is already quite evident as far as Europe is concerned, it declared as a part of the percentage of their GDP, they wanted to earmark more for defence expenditure. That will also trigger for more steel. Then infrastructure spending the world as a whole continues to be there, so that also is a trigger for steel expenditure. Auto side, there is definitely a recovery in the EV or in the automotive. In India, we are clearly seeing the passenger vehicles and the medium commercial vehicles, there is reasonably a good demand triggered by infrastructure and mining sectors. So, overall, if I look at it, the steel demand will remain quite okay. In fact, we are one side talking about Chinese steel demand is falling, economy is slowing down, but just watch the numbers what is happening in China. Chinese steel production in November 2021 was 69 million tonnes. Look at the same number in April, it was 93 million tonnes, so the increase is 24 million tonnes, then look at the apparent steel consumption within China in the first quarter of this calendar year which is 8%, 235 million tonnes of steel consumed as against 212 million tonnes in the previous quarter. So, therefore, there is an increase in demand month after month in China because of this stimulus which is happening. So, it is not that there is no steel demand at all, there is a slight reduction in the overall steel demand in the rest of the world other than China on a month on month basis. That is why the production is getting adjusted in the rest of the world. The production in the month of April was 70 million tonnes in the rest of the world as against 73-74 million tonnes which you have seen in the previous months, but this is clearly established as the fact that China is recovering month after month, so their demand will increase thereby the threat of exports from China is limited. In the rest of the world, either because of energy crisis or power not available or labor shortages or any other issues that are plaguing the rest of the world, the production adjustments are happening to the extent the demand is correcting. So, overall, I think things will be still quite okay.

Ashish Kejriwal: Second question is on prices, is it possible to share our current prices versus landed cost of import and as well as after increase in prices of auto manufactures by around Rs. 11,000 to Rs. 12,000, is it still lower than the spot prices?

Jayant Acharya: We usually do not share our prices because it differs from location to location and it will differ based on product, so as we guided the prices are in line with imported steel numbers and they will continue to remain in that format.

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

Kamlesh Bhagmar: One question on the part of export, is it possible for the buyers to shift to boron steel, boron-mixed steel because if I understand correctly there is no export duty on boron-added steel?

Jayant Acharya: I think the alloy steel category is what probably you are talking about. Alloy steel does not have a duty. Alloy steel will continue to be exported by people who require the alloy steel in that format, whether it is boron, chromium, combination of whatever they require with respect to their end use that will continue.

Kamlesh Bhagmar: Can we explore that or we could continue to be what we are today?

Jayant Acharya: We are exporting some alloy steels and that is there. That will continue in any case.

Kamlesh Bhagmar: And Rao sir, one question on the iron ore or the mines or the global mines which we had, like earlier Chile iron ore mines, there also we took a large write-down and let us say, Mozambique is there and this is the third one where we are again taking some hit there, so what is the thought process on the overseas operations because there were media reports as well that we are looking to divest Europe assets, Aferpi. So, what is the thought process on those overseas efforts because we are doing phenomenally well and it has not been the year like say over the ages, we have been doing phenomenally in India, so why just not focusing on the India and let us say moving on those assets where the turnaround is very difficult to get through?

Seshagiri Rao: Thanks for the advice, the point remains here is in the US, we have made $200 million EBITDA from the pipe mill and also from Ohio together, so this year we expect things will be better as far as the US is concerned. Then in the case of Italy, you must have seen some news items, so basically here, the orders from the Italian railways was getting delayed and it was not getting awarded quickly, so the rail mill there is purely dependent upon the order from Italian mills. It is mutually dependent, so the rail mill dependent on Italian railways and vice versa. So, therefore, in that connection, if the orders are not forthcoming, then we may have to look at it. That is the context in which that has been told, but I don’t think these two operations we have been looking at any disinvestment immediately, but we will continue to evaluate and as you advised we focus majorly in Indian operations and expansions in India, so whatever we have done earlier, we will try our best to turnaround, if it is not okay then we will get out of that.

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

Kirtan Mehta: I just wanted to check on the commissioning of the second CGL line in the Vijayanagar complex as well as the color coating line, I understand that some of these lines are getting differed, could you explain us the issue and when is it likely to get commissioned now?

Seshagiri Rao: No, both those lines are commissioned already. At Vijayanagar, as I mentioned to you excepting coke oven plant and JVML 5-million-tonne expansion, balance all got commissioned.

Kirtan Mehta: And in terms of the JISPL which we are integrating into the company, how would we see the capacity additions in that plant? Do we have any plan there?

Seshagiri Rao: After we spend approximately Rs. 450 crores, today that plant has stabilized at about 0.95 million tonne total installed capacity, so another CAPEX is going on to the extent of Rs. 350 crores to expand the capacity to 1.2 million tonnes. This will get completed by July to September quarter of this year.

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

Siddharth Gadekar: Sir, India is a sizeable player in the seaborne ore and pellet market, so with the imposition of export duties on iron ore and pellet, is it fair to assume that domestic prices can fall by almost 50%-60% from current levels? One and secondly, would that broadly or partially offset our export duties that you would be paying on the export volumes?

Seshagiri Rao: The export of iron ore and pellets together in the last year was 25 million tonne, 11 million tonnes of iron ore and 14 million tonnes of pellets. So, this time the export duty on pellets will have an impact in our view on the domestic prices. So, whether it will come down how much, I think we need to watch, but the Rs. 750 reduction that has been done by NMDC is too small. We expect more correction in domestic iron ore price even in Orissa.

Siddharth Gadekar: But sir, is it fair to assume that we could recoup partially our export duty from lower iron ore cost given that global iron ore prices will stay strong because India is a sizable player?

Seshagiri Rao: The numbers which I gave it to you, it is not sizeable, 25 million tonnes to the total seaborne iron ore if you compare, it is not sizeable.

Siddharth Gadekar: Because given that Ukraine is also out of the market in pellet markets and Russia also there is too much uncertainty, so globally iron ore prices should remain around the same, is that a fair assumption?

Seshagiri Rao: As far as the overall iron ore demand supply, if somebody looks at it, even in China we are seeing more scrap usage and the domestic iron ore production increase, both together, there could be a lower demand from China for iron ore. So, taking that into account, even there is supply side some lower supply, I don’t think there will be iron ore prices remaining at elevated levels. In my view, there will be correction even in this because in the rest of the world as I gave you the production numbers are coming down.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, we take that as the last question. I now hand the conference over to the management for their closing comments. Over to you, sir.

Seshagiri Rao: What we expect in this quarter is that there will be some volatility in the overall steel prices because of global factors and also the imposition of export duty and the adjustment in the local markets, but as far as JSW Steel is concerned, we continue to meet our guidance whatever we have mentioned about 25 million tonnes of production and 24 million tonnes of sales volume. Then we also see that the ramp up at Dolvi is fastened further and there is captive power plant of 175, another 75 megawatts, they are getting commissioned just now in Dolvi. That will reduce the cost further down. It is significant reduction in the cost which is going to happen because of this commissioning and also the downstream has become fully operational. With all this, we will be able to improve our product mix, we will be able to reduce our costs and we will be able to increase our volumes. So, with that I feel we should be okay going forward. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of JSW Steel Limited, that concludes this conference. We thank you all for joining us and you may now disconnect your lines.