"JSW Steel Limited Q4 FY23 Earnings Conference Call"

May 19, 2023

Management: **Mr. Jayant Acharya – Joint MD & CEO**
Mr. G.S. Rathore – COO
Mr. Rajeev Pai – CFO
Mr. Ashwin Bajaj – Group Head, Investor Relations

Moderator: Ladies and gentlemen, good day, and welcome to JSW Steel Q4 FY '23 Earnings Conference Call.

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. Ashwin Bajaj – Group Head of Investor Relations. Thank you, and over to you, sir.

Ashwin Bajaj: A very good evening, ladies and gentlemen. This is Ashwin Bajaj, and it's a pleasure to welcome you to JSW Steel's earnings call for Q4 and financial year 2023. I hope you've had a chance to peruse the "Presentation and Press Release" on our website.

And I would just like to draw your attention to the disclaimer in the beginning of the presentation. Everything that we say will be governed by the safe-harbor statement there.

We have with us today the management team, represented by Mr. Jayant Acharya – Joint Managing Director and CEO; Mr. G.S. Rathore – Chief Operating Officer; and Mr. Rajeev Pai – CFO. We'll start with opening remarks by Mr. Acharya and then open the floor to questions.

So, with that, over to you, Mr. Acharya.

Jayant Acharya: Good evening, everyone. We welcome you all to the JSW Steel Q4 and FY '23 Results Call.

FY '23 was a volatile year, as all of us know. After 3 years of COVID, we were impacted by the Russian-Ukrainian war, more of geopolitical fragmentation, high inflation, which impacted into central banks tightening the interest rates.

If you were to compare this with India, India is an outlier in terms of the economy, it's the bright spot today in the world, has been resilient in its growth, aided by government capex. Manufacturing and the service sector is doing well. We see energy transition being supportive in terms of growth. And while the inflation is cooling, we see that there is a probability that RBI may pause rates going further. And global slowdown, in terms of the subdued demand from the West, remains a risk. However, the India growth story is strong.

In the last year, global steel production in the calendar year '22 globally fell by about 77 million tonnes and the production fell by 60 million tonnes. Based on the World Steel Association forecast, however, most of the regions are coming back into positive territory, and we see a growth of about 40 million tonnes in steel demand in the world globally. Out of this, rest of the world accounts for about 23 million tonnes, and India accounts for close to 38% of this incremental growth in consumption.

India, in the last year, grew at a very robust rate of 13.3% to 120 million tonnes of steel. The crude steel production grew by 5% Y-o-Y to 126 million tonnes. Going forward, we expect demand to continue to be healthy with an incremental possibility of 8% to 10% of steel demand, additionally getting added during FY '24.

Indian steel imports also grew by 45%, which remains an area of concern, while exports fell by 55% during the FY '23. While domestic steel demand remains strong, India remains vulnerable to trade flow diversions and subdued global demand. We need to watch low-priced zero duty imports coming into the country. And it is something which the industry and the government will need to watch out for.

If you look at our performance for the last quarter, it has been a volume story. It has been aided in the last quarter by a good steel price cycle, lower cost of coking coal coming into the quarter 4 from quarter 3. We had guided that the coking coal prices would be flattish. However, we could achieve a $6 drop in coking coal blend into our steel capacities in India. Coking coal cost was about $274.

In spite of the macro uncertainties, volatility in commodity prices as well as the export duty in May 22, we still managed to achieve 100% of our production guidance and 97% of our sales guidance for the consolidated India operations, which excludes Ohio and JISPL. You may recall that we had not reduced our guidance despite the global challenges and imposition of the export duty in India.

JSW Steel achieved its highest-ever quarterly consolidated crude steel production at 6.58 million tonnes in quarter 4, supported by stabilization of the Dolvi Phase-2 production and higher capacity utilization at BPSL. JSW India capacity utilization was up significantly during the quarter 4 '23 at 96% and 90% for FY '23 as a whole due to better operating efficiencies, improved availability of iron ore added to a better performance in BPSL as well.

JSW Steel also achieved its highest-ever consolidated crude steel production of 24.2 million tonnes during FY '23. The sales of the Company, again, were the highest-ever consolidated sales at 6.53 million tonnes during quarter 4 and 22.39 million tonnes in FY '23, growing by 16% and 23%, respectively. During the quarter and full year of FY '23, we achieved our highest-ever domestic sales as well as high growth in the auto sector as well. Our exports picked up in the quarter 4, post lifting of the export duties in November, and a better domestic demand were responsible to achieve good quarter 4 numbers.

We also achieved an inventory reduction of about 350,000 tonnes, post of buildup of inventory in the past 9 months. 350,000 tonnes of inventories were reduced in quarter 4 of '23.

On the Financial Performance: On a stand-alone basis during quarter 4 FY '23, we reported revenues of Rs. 37,153 crores, up 22% QoQ; an EBITDA of Rs. 6,247 crores, up 55% QoQ. The EBITDA margin increased to 16.8% from 13% in quarter 3 FY '23. The EBITDA margin was higher, primarily due to higher sales volumes, higher net sales realization and a lower power and fuel cost. The Company reported a stand-alone net profit after tax of Rs. 2,838 crores for the quarter.

On a consolidated basis: During Quarter 4 FY23, the Company reported revenues of Rs. 46,962 crores, up 20% QoQ; and an EBITDA of Rs. 7,939 crores, up 75% QoQ with an EBITDA margin of 16.9%. The increase in EBITDA QoQ is primarily attributable to higher sales volume, improved sales realization and lower cost emanating out of better coking coal and a better mix of iron ore.

The profit after tax for the quarter was Rs. 3,741 crores, after incorporating the financials of subsidiaries, joint ventures and associates. At the end of FY '23, our net debt stands at Rs. 59,345 crores, down by Rs. 10,153 crores compared to quarter 3 of FY '23, due to healthy cash generation and release of working capital in the business. Our net debt-to-EBITDA is 3.2x. Our net debt to equity is about 0.89x, both lower sequentially. Our net gearing and leverage are well within our stated gaps of 1.75x and 3.75x, respectively. At the end of FY '23, revenue acceptances stood at $2.8 billion, and capital acceptances stood at $211 million.

On the project side, we would like to update that the 5 million tonne expansion at Vijayanagar is progressing well, with construction activities and equipment erection for all packages underway. The project is expected to be completed by the FY '24. The Phase-1 expansion from 2.75 million tonnes to 3.5 million tonnes at BPSL was completed in FY '23. The Phase-2 expansion from 3.5 million to 5 million tonne remains on track for completion in FY '24.

The Company's domestic capex spend was Rs. 3,507 crores during quarter 4 of FY '23 and Rs. 14,214 crores for FY '23 as a whole against the revised planned capex of Rs. 15,000 crores for FY '23. The Company expects to spend about Rs. 19,000 crores for FY '24, primarily for completing 5 million tonne brownfield expansion at Vijayanagar, the BPSL Phase-2 expansion to 5 million tonnes and downstream facilities and sustenance capex apart from sustainable capex in mining as well as the new acquisition of mines.

The Board has recommended a dividend of Rs. 3.4 per equity share for the year ended March 31, '23, subject to the approval of members at the ensuing Annual General Body Meeting. The total outflow on account of this dividend would be Rs. 822 crores. For FY '24, the crude steel guidance for Indian operations including the Joint Control, is 25.5 million tonnes and sales of 24.2 million tonnes. Including Ohio operations, the crude steel production and sales guidance for FY '24 is 26.34 million tonnes and 25 million tonnes, respectively.

I would like to mention that the India growth story, as I said, is very positive. We have seen a lot of resilience in the Indian economy, aided by government capex, manufacturing, energy transition services, the deleveraged corporate balance sheets and bank balance sheets provide scope for private expansion. The fiscal position benefiting from low energy prices, fertilizer subsidies and strong tax collections. The cooling of inflation is a positive in India as well. So, on the back of this, we expect Indian economy to do well and is a bright spot in the midst of all the uncertainties, which we see in the world.

I would also like to sincerely thank Mr. Seshagiri Rao for his valuable contribution to the growth of this Company over the last 25 years. He superannuated from the services of the Company and consequently stepped down from the Board with effect from 6th April. And he continues to be associated with JSW Group as a Group CFO.

We would now like to open the floor for questions, if any. Thank you.

Moderator: Our first question comes from Amit Dixit with ICICI Securities. Please go ahead.

Amit Dixit: Congratulations for a good set of numbers ahead of expectations. Sir, 2 questions from my side. The first one is more on industry scenario. So, we have seen that in the last couple of months, a few imports have been booked. Chinese steel prices are well below our domestic prices. Don't you see a repeat of FY '16 happening here when domestic steel consumption was very healthy? But due to advent of imports, particularly from China, domestic industry really didn't get anything. Isn't that apprehension playing back in your mind, when we are progressing on our expansion projects and guiding for a very robust volume growth?

Jayant Acharya: So, thank you, Amit, for the question. I think it's a little different this time because if you really look at China, over the last 7 - 8 years, I think China has taken active steps to reduce their energy consumption and any sectors which are polluting in nature. We have seen a responsible behavior towards the international market as well. Over the last few years, Chinese exports have come down. If you were to look at over the past few years, we see that trend. While in the quarter last, that is January, March and April, maybe the Chinese exports have gone up. There was an expectation that post opening of China, the demand would go up and the production was actually built to that extent, but that did not happen as much. So, therefore, some of its steel found its way to the international market.

Having said that, I think China has announced that they would like to limit their steel production to CY '22 numbers, which would effectively mean that in the remaining 8 months of this year, China would reduce their production by 6 million tonnes odd per month, which is a very big positive for the world at large and global steel prices in general from a sentiment perspective.

So, yes, I think you see that more responsible actions by most of the steel producers and the steel-producing countries. And the margins in China also today, given the cost structure, I think the prices have, by and large, bottomed out. They have a margin which is under pressure. I don't see that the prices from here would really go down. It would be range-bound. And we expect kind of a positive traction from the India growth story.

Yes, we would need to be vigilant on any kind of low-priced imports coming in, and we would watch out for those cargoes. The government of India today has shown in the past that they are ready to take action should the need arise. And I think the Indian government would come forward to do that as well if there is a requirement.

Amit Dixit: The second question is essentially on debt levels. Now while net debt has gone down, but if we really see on gross debt level, debt has not gone down compared to Q-o-Q. So, do we see any scope of gross debt reduction going ahead, considering that we have very a sizable capex lined up at least for next 3 years?

Rajeev Pai: Yes, Amit, this is Rajeev Pai. So, I think the question which you have raised, yes, we have a Capex spend plan of about Rs. 19,000 crores for the year. But our internal accruals, what we are estimating net of tax, dividend and interest, they are enough to meet this capital expenditure. And that means we expect the debt to remain at similar levels except with one addition that currently, we are in the process of completing JISPL merger. So, as a result of the JISPL merger, their debt will travel to a JSW Steel consolidated, which is expected around Rs. 3,000 crores. So, other than that, we do not expect the debt level to go up substantially, either because of capex or because of any other reasons.

Amit Dixit: Sir, just a follow-up on this. Any net debt-to-EBITDA threshold you will guide here? Or any absolute reduction in debt level you will guide for FY '24?

Rajeev Pai: No, I have mentioned the debt level will remain at the current levels plus JISPL debt. And we have a net debt-to-EBITDA ratio of about 3.2x. With the improvement of EBITDA, the ratio is expected to improve.

Moderator: Our next question comes from Indrajit with CLSA. Please go ahead..

Indrajit Agarwal: Congratulations, Acharya sir, for your elevation. Sir, I have 2 questions. First, when I look at both on your guidance. First, when I look at your production guidance of about 1.5 million tonne additional production in FY ’24, if you can help us understand which facilities do you think will ramp up more? And on that note, what was the exit utilization of Dolvi expansion?

Jayant Acharya: So, our guidance, as you rightly said, is about 26.34 million tonnes, including our Ohio operations. Our Indian operations, including JISPL, would be 25.5 million tonnes. Our additional volumes would be coming in from the ramp-up of the full facility of Dolvi. We would also get additional volume coming in from the Jharsuguda BPSL expansion. These two will primarily add volume for the coming year.

We also have the Vijayanagar facilities, which the new 5 million tonne, which would come in for that, would happen towards the later part of the year, so may not add up in terms of volume for this financial year. In addition to that, we would have downstream capacities getting fully ramped-up in this year. Our Tinplate 2, which recently got commissioned; our CAL line, which got commissioned at Vasind. The new facility of color lines in Rajpura and Jammu and Kashmir, which are expected to come on stream would add to this volume availability in terms of reaching 26.34 million tonnes.

Also, if you were to look at our Ohio facility, I think the Ohio facility is also expected to do better from an overall year's perspective compared to what it did last year. So, we expect 0.84

million tonnes from Ohio in terms of production. Similar numbers are reflected in sales as well, and we expect the overall sales to be around 25 million tonnes, including our Ohio operations.

Indrajit Agarwal: My second question is again on guidance. When I look at your finished steel sales guidance for India operation, it's about 2 million-tonne extra Y-o-Y in FY '24, while your production for crude steel is only about 1.5 million. So, do you expect more inventory reduction and hence, working capital release in FY '24 over FY '23? And what is the finished steel inventory you are sitting with right now?

Jayant Acharya: So, as I was mentioning, that we have liquidated about, let's say, 3.5-lakh tonnes, so 350,000 tonnes in the last quarter in terms of overall inventory. Our inventory position as on 31st March '23 is about 1.69 million tonnes. It was about 1.3 million tonnes on the beginning of the last financial year, that means 31st March '22. So, we see a scope of reducing inventory in the system. And that's one of the numbers which have also been considered in our sales forecast guidance which we have given.

Moderator: Our next question comes from Sumangal Nevatia with Kotak Securities. Please go ahead.

Sumangal Nevatia: My first question is on the capex. Now we are spending around Rs. 19,000 crores in '24. And if you look at the project update for both the expansion in Vijayanagar and BPSL, we are quite on track to complete in '24. Just want to know for this expansion, what is the carry-forward spillover capex in '25? And in '25, '26, as per the presentation, you're still guiding for a very significant capex to the tune of almost Rs. 33,000 crores, Rs. 34,000 crores over 2 years, '25 and '26. So, where are we spending that level of funds in the next 2 years?

Jayant Acharya: So, the capex numbers, if we were to look at the summary, it's about we had a carry forward of about Rs. 48,800-odd crores in this year. Out of that, we have spent Rs. 14,200 crores. We would be adding some new capex proposals to the extent of about Rs. 17,000 crores, which would go into various growth initiatives and cost-saving projects, apart from backward integration and sustainable mining in our mining operations. So, we would also be initiating the slurry pipeline. Work on that has already started in Orissa, which would be one of our main cost reduction initiatives.

The mines, which are being operated in Odisha and Karnataka, the new mines which have been recently acquired, which is 4 iron ore blocks and 2 coking coal mines, would also be in our fold and therefore, we would be spending some of the capex to get those up and increase the production. And I would request Rajeev to add to this. Yes, this is basically the broad breakup.

Sumangal Nevatia: So, in this new growth segment, I mean, is there any upstream steel capacity also beyond what we've announced of 37 million tonnes? It's only downstream and cost saving.

Rajeev Pai: Yes. In this new capex proposal, basically, we are looking at mainly cost reduction projects plus, as Mr. Jayant has explained, to improve our mining capabilities. Whatever were the volume accretive investment that was already communicated earlier, which is basically Vijayanagar and Bhushan Power & Steel volume expansion capex.

Jayant Acharya: This also includes sustenance capex, which you need to keep in mind. So, this includes about Rs. 4,700 crores of sustenance capex as well, in addition to what we mentioned just now for all our locations.

Moderator: Our next question comes from the line of Alok Deora with Motilal Oswal Financial Services. Please go ahead.

Alok Deora: Congratulations on the good numbers. Just had a couple of questions. So, one is the share of value-added proportion has increased to nearly 60% from the typical rate of 55%. So, is it a one-off? Or we could see this improve further from here?

Jayant Acharya: Yes, in the last quarter, we had a 60% VASP proportion in our sales mix. We expect to be in the range of 55% to 60% as we grow our volumes. We have added capacities, the new CAL line in Vasind is stabilizing. The Tinplate 2 mill at Tarapur, which is added, is also ramping up in this financial year. Our LRPC facility of wires is ramped up quite well and would play out fully in this financial year. That's at Vijayanagar.

The value-added capacities, which are being added in Jharsuguda for special steel longs, would also fructify in this year. And the capacity expansion at Dolvi, which enables us to produce more specialty steel in Dolvi operations, has also got fully ramped up. We have added facilities which would enable us to do that. And it would also supply some steel to our Anjar facility for making discrete plates. The Anjar plate mill is doing quite well. It's supplying to the wind sector. We are adding a Mulpic Cooling facility, which would get completed by the next month. And that would enable us to do much higher grades and would enable us to produce for defense as well. So, we see good traction coming in from the value-added and specialty steel business.

Our range remains at 55% to 60%. But having said that, I think what is important to note also that our volume growth is also consistently happening apart from the share. Last year, the VASP grew by 17%, if you were to look at the year as a whole, to reach 12.36 million tonnes.

Alok Deora: Sure. Just your thoughts on the sharp correction in the coking coal prices. So, we have corrected quite significantly if you look at when we were sitting in the last quarter, the price was hovering around \$330, \$340 or so. And now it's below \$250. So, of course, we will get the benefit of that coming in the second quarter or so. Just your thoughts how that could change our profitability in FY '24? Any guidance on that?

Jayant Acharya: So, the coking coal market, as you are aware, has been very volatile post the Russia-Ukrainian war, February last year. Coking coal prices peaked in these months of March and April and started correcting post that. So, therefore, the 9 months of the last year have been impacted. And while the coking coal price average for the last 10 years, if you were to look at, is \$170-odd FOB

Australia. While the coking coal prices have come down, as we speak today, it still remains elevated.

For the month of February, if you were to look at October, December, the coking coal prices have gone down. In the month of February and March, it again went up. In February and March, it was in excess of $350 to $360 range FOB Australia. As we speak today, the prices have come off by close to $100. And the benefit of this coking coal price reduction would flow in into our business from June and mainly in the July-September quarter, because we carry about 60 to 65 days of inventory, which would remain in our system in the first quarter. We expect the first quarter coking coal cost to go up. Last quarter, we had guided a flattish coking coal cost. However, we could achieve a $6 reduction. It went down from $280 to $274. And in this current quarter, we expect that the coking coal cost will go up by $10 to $15.

Moderator: Our next question comes from Satyadeep Jain with Ambit Capital. Please go ahead.

Satyadeep Jain: A couple of questions. One, on mining, you've obviously won multiple coal mines. Can you maybe give some insights on how much coking coal and how much coal production could we see? When is the time line for that? How much capex would be required? And which plants, especially thermal coal, is it mainly going to go to BPSL? Or could you see some other plants also going to get thermal coals? So, that's on mining.

Jayant Acharya: Yes, we have won, specifically 2 coking coal mines on the metallurgical side. And our focus would be to get those up first. We expect the Parbatpur mine and Sitanala mine to contribute to about 1 million tonnes of coking coal, net of yield. The main mine is Parbatpur mine, which we expect to start earlier. Maybe by the middle of next financial year, we would see Parbatpur mine starting up. And the Sitanala mine would take some more time, but that's a smaller adjoining mine. It may take up to 2.5 years' time.

The output of these 2 would be in the range of, as I said, 1 million tonnes of coking coal. It contributes to about 5%-odd to our overall coking coal requirement. So, it's a kind of a small requirement which is being met domestically. So, we would supply this to our steel plants on a logistics advantage basis in terms of wherever it is making sense. So, it would be more of Jharsuguda asset, which would get supply from here.

Satyadeep Jain: And the same for thermal coal mine also?

Jayant Acharya: Yes, there is a thermal coal mine, which we have won as well. As a strategy, as a domestic coal strategy, I think I would like to say that our focus is to see that we look at various domestic coal assets, establish coal washeries and there is a possibility of washing coal and get some of the coal converted into metallurgical coal, although it may be lower metallurgical coal quality with a higher ash, but we still would be able to use and blend some part of the middlings would go into the power plant.

While this asset is a thermal coal asset, which we would use in case we decide to go ahead for our thermal coal and maybe some of the washeries, which would be set up would wash this coal for ultimate use of some quantity into the steelmaking. But having said that, I think our focus is first right now on the 2 coal assets, which are coking coal mines, and we would invest on the third mine once we complete these 2 assets.

Moderator: Our next question comes from the line of Abhiram Iyer with Deutsche Bank. Please go ahead.

Abhiram Iyer: My first question was on the coal price reduction going into July quarter. Could you please reconfirm what the number was that you see?

Jayant Acharya: So, directionally, what I was saying is that the coking coal prices emanating from February and March will flow into our April, June quarter. So, therefore, the cost of coking coal in the quarter 1 would be $10 to $15 higher than in Quarter 4. Having said that, what I mentioned was that as we speak today, the price of coking coal has come down sharply. It has gone down by close to $100 per tonne over the February-March period. However, the benefit of this would flow in into the quarter, July, September, mostly.

This is not an indication that $100 equivalent will flow in. These are spot prices as we speak today. We do not know how the coking coal market would behave. We are seeing a better supply situation, China buying more from Russia and Mongolia; better supplies from Australia, post weather disruptions, supply has improved.

So, therefore, we feel that there is a possibility that coking coal will be range-bound in terms of the current prices, which we have today. And that benefit would pass on. We will not be able to exactly quantify how much benefit would pass on to us in quarter 2.

Abhiram Iyer: And just looking at the working capital inflow for this year, this has primarily come down in terms of better payable terms. Do you see this reverse going forward? Or do you see that essentially, this trend is continuing because of the optimization that you've done in your supply chain lines?

Rajeev Pai: So, basically, since 85% of our sales is focused on India, and India, the domestic demand looks reasonably well, so I think we do not expect any major increase because of working capital. But yes, there will be seasonalities like quarter 1, quarter 2. So, because of seasonality, some investment in working capital would remain in the first 2 quarters. But when you look at the year as a whole, we do not expect at least 85% of the business to really get impacted. There could be something based on the raw material inventory, based on the prices, what we would like to hold. And to that extent, there could be some increase in working capital. But generally, by and large, we do not expect the debt to go up substantially because of working capital increase.

Moderator: Our next question comes from Kirtan Mehta with BOB Capital Markets. Please go ahead.

Kirtan Mehta: My question is related to your value-added products portfolio, where we have developed now 60% on the flat side, and we have also developed the long side. I wanted to understand the current total capacity for the flat products as well as long products, and their current utilization level. And if you want to sort of quantify this in terms of the premium or benchmark, what sort of premiums we are earning today overall as a flat portfolio or in the longs portfolio? Have I been audible?

Jayant Acharya: Yes, you're audible. So, yes, so our value-added and special products put together is what we look at. We were at the 60% level last quarter. Our range is 55% to 60%, we would like to maintain.

The value-added capacity, which we have currently value-added flat, is about 12.5 million tonnes. We are adding capacities in long in our facility in Jharsuguda, where we are adding about 0.6 million tonnes of additional wire rod and thereby, we'll be able to use better our bar facility, which produces all specialty steel. We are also seeing the opportunity of special steel emanating from our newly ramped-up facility at Dolvi. It is capable of producing high-quality advanced steel for automotive. It is capable of producing API-grade x70 and above. It is also able to produce high tensile grades for our facilities, both in Dolvi and for the plate mill at Anjar. Anjar continues to do well.

The plate demand is getting augmented by the renewable energy demand in India. We are putting up cooling systems in Anjar. The Multic Cooling system, as I was just saying, would add further capabilities to the product line. And we will be able to produce more refined grades and also be able to cater to the defense requirement in India. So, our overall focus of value-added journey continues while we grow our capacity in India.

Kirtan Mehta: Sir, it's quite detailed explanation how the value-added focus would grow. In terms of sort of would it be also possible to sort of guide us on what sort of the premiums we are currently earning on the benchmark portfolio? And how would this change over the next 2, 3 years as we ramp up this capacity to full utilization?

Jayant Acharya: So, I think it is very difficult to quantify a premium, because every product line would have a different strategy and would have a different price point. Tin for packaging, I think I would like to highlight rather the qualitative factors which go into this. Basically, if you were to look at the product basket which we have established, we have tried to build capacities around where India is growing.

If you were to look at construction and infrastructure, which accounts for about 65% of the steel demand in the country, we have tried to put in capacities in our downstream facilities like Galvalume; like color-coated, which take care of this. We have also added a facility of zero spangle galvanized. We have recently started giving zinc magnesium steel, which are highly corrosion-resistant, especially for areas where corrosion resistance requirements are high.

We continue to focus on our specialty long product basket. I would say, other than TMT, our long product basket, if you were to exclude TMT, about 80% is now in specialty steel. If you also look at the construction steel, which we do in the TMT, we have started producing much higher high tensile steel. Our new high-tensile rebars, our new facility of LRPC which is low-stress pre-concrete wires, which have started in Vijayanagar. It's contributing to the construction sector and infrastructure sector in a big way. The bullet train, the high-speed rail corridor, which is being planned by the government, we are happy to say that we have contributed more than 50% of the total steel requirement in this project so far. And we continue to look at opportunities to supply special quality steel for all our nationally important projects.

Moderator: Our next question comes from the line of Ritesh Shah with Investec. Please go ahead.

Ritesh Shah: Two questions. First on pricing. Sir, how should we look at flats and long pricing, say, into April, May and the quarter forward? And if you could give some commentary on automotive contracts as well? So, that's the first question, sir.

Jayant Acharya: So, first of all, from a volume perspective, I would like to say that our automotive business has done quite well. Our auto sales in the last quarter, at 682,000 tonnes, grew quite well by 7%. But if you see the year as a whole, automotive was 2.6 million tonnes plus and grew at about 36% over the year before, FY '22.

Our continuous development on the automotive front, if you were to look at, we are making active efforts to develop steel for various automotive applications, whether it's in flat steel or in long steel. As you know, the automotive requires a longer approval cycle, and this is enabling us to improve our share of business in the automotive sector.

The pricing for the automotive is basically contractual in nature, and it is under discussion for the current quarter as we speak. The prices are being discussed for an increase, and they are in discussions with our various customers, both across flat and longs. I will not be able to quantify right now as to what the numbers are because they are still under discussion.

Ritesh Shah: Sir, generic flats and long prices for April and May, has it trended down? If yes, to what extent?

Jayant Acharya: So, yes, we had a good steel price environment in the last quarter, as I was saying. However, post March, I think the prices internationally have corrected somewhat. We see a reflection of that in India as well. The prices in India, also in the month of May, have corrected by about $25 equivalent. And we expect that there would be some volatility in the steel prices, primarily because of some low-priced imports, which are coming in. But as I mentioned, we do not see much downside because I think the prices emanating from China have already reached close to a bottom. And we may see a little bit of more volatility between now and June, but the price would be well cushioned by the fall in our raw material costs, which I explained on the coking coal side, which would shield margins to that extent.

Ritesh Shah: Sure, sir. And my second question was on capex. We have indicated a new capex of Rs. 12,500 crores. You did emphasize on growth, cost savings and mining. So, is it possible if you can put 3 buckets separately, if you could please put some numbers? And into, say, FY '25, what sort of volume growth should we look at given we don't know when we are talking about growth capex over here, we exactly don't know it's going towards what? And secondly, cost savings, we have been hearing this from the management since quite some time. But specifically, even we don't have a breakup corresponding to this Rs. 12,500 crores, is there some quantification on a potential cost-saving target that we have?

Jayant Acharya: So, on the cost savings side, I would like to say that we are taking various initiatives on cost savings. One of them is a better quality of iron ore. So, we have put beneficiation assets across, which would be able to produce better quality of iron ore grades. We are also looking at capex from the point of view of Coke Ovens, which would basically reduce the cost of coke, which we are currently procuring from outside. And it would make us fully compliant with our own requirements.

In addition to that, we are looking at the slurry pipeline project in Odisha. That's a major cost-saving initiative which we are looking at. In addition to that, we have just commissioned the 175-megawatt and 60-megawatt power plant in Dolvi, which has started. And that benefit would fully play in this coming year, in FY '24.

We are also looking at, in this capex, which we have announced, sustainable mining capex, as we explained, sustainable capex for our overall operations across the locations and growth beginning through a pellet plant in Odisha, which would link back to in a modular way to our steel plant, both on the East as well as possibility of supply pellets to our plant at Dolvi.

Moderator: Our next question comes from Vikash Singh with Phillip Capital. Please go ahead.

Vikash Singh: Sir, I just want to understand our raw material strategy. Given in the past, we have expressed some displeasure over the Odisha mines, which we have taken, including the costs, et cetera, we continue to bid for a new mine at a substantial premium. So, just wanted to understand, given we have some reservation about some of the mine in Orissa, including grade and then not fully utilization, why do you continue to do so?

Rajeev Pai: So, as a medium to long-term strategy, JSW would continue to look at both iron ore and coking coal mines, because that's more of a strategic advantage, so as to get a continuous quality of a similar Fe or a coal as the raw material and that ensures that our blast furnaces and various facilities are run at an optimum operating parameters.

As the auction of mines in India has recently started, there will be some teething troubles in each state because this is being a state subject. But we are confident that going forward, these issues will get sorted out. And this will be an important backward integration strategy for JSW for this 27 million current capacity, which will be going to 38 million.

Vikash Singh: Sir, my question largely pertains to the cost, the premium which we are paying. Does it make economic sense for that kind of premium?

Rajeev Pai: Yes. I just mentioned. There are 2 parts. One is the cost where it is linked to the market and a premium, but the important part is the consistent supply of these inputs. And by ensuring consistent quality, we are able to operate our facility in an optimum way, that improves fuel efficiency and various other parameters. So, I think whilst we do not get cost benefit per unit of iron ore or coal, what we get is the much better operating parameters. And as a result, conversion cost is on a lower side.

Vikash Singh: Understood. Sir, my second question pertains to our overall capacity and debt. So, given that we are now talking about 25 million tonnes-plus kind of the production in India, have we reached on an inflection point where the future incremental capex would be sustainable by the current capacity, and our absolute debt would not go up? Or this point is still somewhere far away? And if so, when would you like to tell us?

Rajeev Pai: Yes. So, when a Company is adding about 9 to 10 million tonne capacity in a year, and the capex part of that is already front-loaded, I think what you say is right at JSW Steel is at a point wherein it will have an absolute production numbers, which will throw a lot of cash accruals. And as a result, that will be good enough for considering the future expansion as and when we take a decision.

So, looking at that, we do not see the current level of debt to go up substantially except, maybe some pockets of working capital increases, which will keep happening. But other than that, we do not expect the debt to go up substantially from the current levels.

Moderator: Our next question is from Pallav Agarwal with Antique Stockbroking. Please go ahead.

Pallav Agarwal: I had a question on the enabling resolution for raising funds. So, is this more from a new resolution that we take every year? Or is there some actual plan to raise any equity fund?

Rajeev Pai: So, as a strategy, we take the fundraising resolution basically to ensure that at an opportune time, we are able to raise, either from domestic capital market, international capital market. Also, there are certain regulations regarding validity of resolution. So, some of the resolutions one needs to get approved every year, including shareholders' approval. But it's not necessary that all of this would be acted upon. But JSW has the strategy where, whatever repayments which keeps happening, we keep refinancing this with the new debt. And to that extent, we will continue to draw.

As regards to our capex pipeline of Rs. 19,000 crores, we have enough strong accruals so as to meet the capex. So, I think basically, this resolution is to refinance and elongate the maturity of the debt.

Pallav Agarwal: Also, I think this quarter, at a standalone level, we've sold more than what we've produced and obviously, some inventory also has been liquidated. So, does that mean that there will be probably some shutdowns that have taken in this quarter and probably the volume sequentially can be lower than the 4Q volumes?

Jayant Acharya: Could you just repeat that question once?

Pallav Agarwal: Yes. So, what I said, sir, this quarter, on a stand-alone level, you've sold more than what we produced. So, I guess obviously, there's some liquidation of inventory as well. So, will we see a sequential decrease in 1Q in terms of steel sales volume? And have we taken any shutdowns of the plant, et cetera, in this quarter?

Jayant Acharya: No, we have not taken any planned shutdowns per se, maybe a couple of days here and there, which is routine. Other than that, no. As we mentioned earlier, we have an inventory of about 1.69 million tonnes in this year beginning. So, we would look at potentially reducing part of that inventory as we go into FY '24 overall. It may not be in Q1, but certainly, over the year, we would look at doing it.

Moderator: Our next question comes from Mitul Shah with Reliance Securities. Please go ahead.

Mitul Shah: Congratulations for a very strong performance. Sir, my question is on the demand side, where we are indicating roughly 10%, 12% increase in our FY '24 guidance for sales, but which are the segments wherein you see more growth? Because in the case of automobile, as we highlighted last year was a very high growth of 36%. But for this year, FY '24, the industry body as well as other automakers indicating single digit like 5%, 6% kind of a growth. So, from where do you see growth coming?

Jayant Acharya: Just to specifically answer on the automotive side, if you were to see the last quarter number of 682,000 tonnes, which we did in Quarter 4, if you were to annualize that, then our numbers would be close to 2.75 million tonnes as against 2.6 million tonnes, which we have done last year. That is one.

And I think while the industry in general is doing well, the purchasing power has improved. We expect automotive production to be stable. Having said that, I think one of the areas, as you know, that 65% of the steel is consumed in construction and infrastructure, and about 20%, 25% is consumed in general engineering. We see traction in both these areas. Construction infrastructure continues to be driven by government capex, public sector capex, state capex and now upcoming private capex. So, we see this as a very strong enabler for this year.

In addition to that, we see manufacturing in the renewable energy space to be quite good. We are seeing manufacturing activities in various areas like bearings, fasteners, and some other auto components, which are getting exported to be good. So, even if you were to look at the packaging and the appliance sector, we see a good traction. So, therefore, I think on a combined basis, even other than automotive, we see an overall good growth across all the segments which we cover.

Mitul Shah: Second question on the export side. Sir, what is the export outlook, and it has improved remarkably in Q4. So, how has been the situation in April and May?

Jayant Acharya: So, our exports for the last year, our full India operations have exported about 2.76 million tonnes of steel. Exports were disrupted because of the export duty between May and November. In spite of that, we could achieve this number, primarily because of the increase in exports in the last quarter, post opening up. But since the demand internationally is subdued, there could be challenges because of the volatility. In spite of the fact that we are diversified in over 100 countries, we have still taken a conservative scenario and kept our exports limited in this year to a level slightly higher than what we achieved last year. So, just to go back, we did 5 million tonnes in FY '22. And we would be probably in the range of 3 to 3.5 million tonnes in this year as we step into FY '24.

Moderator: Our next question comes from Ritwik Sheth from One Up Financial. Please go ahead.

Ritwik Sheth: Sir, firstly, you mentioned earlier in the call about the Chinese steel players. Their current cost structure and realization doesn't allow them to sell around these levels. So, any sense you would have what kind of margins, if any, they would be making around $550, $570 FOB, which they are exporting at recently?

Jayant Acharya: Going by a pure thumb-rule calculation, I think we feel that based on the current export price, they're already in negative territory for many of these Chinese steel-producing companies. So, therefore, we feel that while the benefit of raw material will also come to them, but they may then be a little bit over breakeven and given the situation that nobody can continue to be unprofitable, we feel that the prices have more or less bottomed out in China. And that would give a flip to the overall sentiments globally.

As I also explained that the Chinese government has indicated that they would like to limit the production to CY '22 levels, which would mean that the Chinese steel production, now in the remaining 8 months, would go down by about maybe 6 million tonnes a month, potentially. That would further stabilize the basic flow of steel into the international market. So, it's a positive. We have to see whether it actually comes out the way they are laying it out to be, but it certainly is a sentiment positive and good for stability of the steel prices globally.

Ritwik Sheth: Sir, my second question is on the overseas subsidiaries. Except the U.S.A., Ohio, both others are generating positive EBITDA in FY '23. So, what is the outlook in FY '24 for all the 3 overseas subsidiaries?

Jayant Acharya: We continue to do well in our facilities in U.S. Operationally, Ohio is also doing better. But Baytown is certainly doing very well. Going into the year FY '24 for us, we see renewable energy, especially wind, barges, infrastructure picking up in U.S., and therefore, Baytown, we feel will continue to do well. There is a differential pricing between plate and coils, and that also plays positively into the Baytown EBITDA.

Italy, if you were to look at the overseas subsidiaries, the profitability has primarily come about from the rail orders, which has recently been given by the Italian government. And we see a good traction on export orders as well. So, we are reasonably confident that this year, Italian operations will do much better and maybe be able to reach the current rate of EBITDA per quarter, which we have seen. So, annualized for the full year for the FY '24.

Moderator: Ladies and gentlemen, due to time constraint, that was the last question. I would now like to hand the conference over to the management for closing comments.

Jayant Acharya: So, thank you very much for being there on this call. I would just like to reiterate that JSW Steel has performed very well in the last quarter and the year as a whole, in spite of difficult first 9 months. As we go into FY '24, we see the India growth story playing out positively. It's a bright spot in the world economic situation today among uncertainties in the rest of the world. We see our capacity buildup, which we have done over time, yielding results, and we see that we are ready to basically meet this growing demand in India.

We have also taken initiatives to reduce our cost through various cost-reduction initiatives, as explained, and also backward integrate into our mines, coking coal and iron ore, both. So, going forward, we expect that FY '24 will be a good year, certainly better from an EBITDA standpoint versus what we have seen in FY '23. Thank you very much. So, thank you, ladies and gentlemen, and have a great weekend.

Moderator: On behalf of JSW Steel Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.