"JSW Steel Limited Q2 FY-23 Results Conference Call"
October 21, 2022

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Moderator: Ladies and gentlemen good day and welcome to JSW Steel Limited Q2 FY23 Results 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 this 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, JSW Steel Limited. Thank you and over to you Mr. Bajaj.

Ashwin Bajaj: Thank you Neerav. 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 Q2 FY23. We have with us today the management team represented by Mr. Seshagiri Rao – Joint Managing Director and Group CFO, Mr. Jayant Acharya – Deputy Managing Director, Mr. Rajeev Pai – CFO and Mr. G.S. Rathore – Chief Operating Officer.

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

Seshagiri Rao: Good evening and we welcome you all for the briefing session of the second quarter FY23 performance of JSW Steel. The world is going through two major twin crises. One is very high inflation which in some countries is 40 year high and very high elevated energy prices. To address these two-twin crisis, the macroeconomic stability and reducing the surging inflation have become the key objectives of many countries in calibrating their monetary and fiscal policies. Since the starting of 2022, over 90 central banks in the world aggressively increased the interest rates. The fallout of that is very tough financial conditions, narrowing liquidity in the global markets which also is having an impact on the overall outlook for growth going forward. But this aggressive monetary policy is not addressing the supply side issues. So, inflation remaining stubborn and countries and the central banks continue their path of increasing the interest rates. This is the kind of scenario which we are seeing as far as the global markets are concerned.

In India the domestic demand remains stable and strong and the credit growth is getting accelerated. It is over 18% year-on-year growth in the credit. The manufacturing industry, the capacity utilization is around 74%-75% which is the highest level in the last 3 years. Even though there are headwinds in the domestic economy by way of slowing external demand, geopolitical risks, and very high energy prices. Even with those headwinds we are seeing a good traction and momentum as far as the domestic market is concerned. Global steel sector, considering fall in the or slowing demand in the steel industry, there is a rapid cutback in the steel production in number of countries. In the first eight months of the calendar year the total steel production cut was 68 million tonnes. Out of that, 42 million tonnes is in China and 26 million tonnes is in the rest of the world. What is interesting here is that even though there is a drop of 26 million tonnes in the rest of the world, there are two places where there is a positive growth. That is India and the second is Middle East. That is where the India story lies.

When you look at the numbers globally as regards to steel production cuts that are happening across the world due to slowing demand, falling steel prices, elevated raw material costs, squeeze in margins, where 29% of the steel companies in China are very close to bankruptcy. If that is the situation where we are seeing a very positive outlook in the Indian growth story. In India, the consumption even though year-on-year in the first half, it has grown over 11% but the quarter-on-quarter if you look at the production growth, it was only 1.55% and is very small. But the production quarter-on-quarter it was negative by 3.25%. There was some slowdown in the quarter majorly attributable to very severe monsoon that was seen in India in the last quarter. But the imports are increasing, that is a matter of concern. If you see quarter-on-quarter, it went up by 23% and at the same time exports have fallen by 37.5%. In that context, if you look at the story of JSW Steel, I think it is a volume story in the last quarter. We have achieved 4.95 million tonnes on a standalone basis the production and 5.58 million tonnes of production after including Bhushan Power and Steel. Here what is very important and interesting is the total sales volume. Sales volume on a standalone basis is 5 million tonnes, 5.01. And on a consolidated basis it is 5.63 million tonnes. The sales volume went up by 47%. Over and above that, out of this 5.63 million tonnes we have sold in the domestic market 5.07 million tonnes which is a growth of 47% quarter-on-quarter. This is the first time where we have crossed 5 million tonnes mark and we have increased our market share to 18% in the domestic market, even though exports have fallen by 37%.

Our volume of exports in the last quarter was 5,60,000 tonnes which is 10% of the total sales. Our value-added sales volume has gone up by 24% quarter-on-quarter, our retail sales, our sales in the renewable sector, our sales to automotive sector, all have gone up in the last quarter. That has made us to increase our overall sales volume in the domestic market. But in spite of increasing sales volume the margins were under tremendous pressure as is prevalent in the steel sector globally. The reasons being very steep fall in the net sales realization.

Net sales realization on a blended basis have fallen by 14% which was Rs 10,000 lower than the Quarter 1. Whereas costs have not kept pace with the fall in steel prices as we have been guiding in the last quarter that we had high-cost raw material inventory that they were to be consumed in the Q2 therefore margins will be under pressure in the Q2. In line with our guidance, the costs have fallen by only Rs. 5,200 per tonne. So, there is a pressure or a drop in the margins to the extent of Rs. 4,800 per tonne in the Q2 on a standalone basis. Because our costs have not gone down to the extent where steel prices have fallen, the margins got adjusted to that extent.

The coal price in the last quarter was $381, which went into consumption as against $421. So even though it was lower by $40 per tonne, it has not neutralized the fall in the steel price. With that on standalone basis the EBITDA was Rs. 1,742 crores in the last quarter, EBITDA per tonne was Rs. 3,479.

The other subsidiaries are concerned particularly domestic subsidiaries, Bhushan Power and Steel has negatively contributed in the last quarter where we made Rs. 698 crores of EBITDA in the Q1 which turned out to be a negative Rs. 183 crores. The kind of challenges we had faced in Bhushan Power and Steel in the last quarter were majorly due to monsoon, very heavy monsoon in Orissa. We were not able to transport the iron ore and coal from the ports and the mines. One problem was the availability of iron ore because of the duty on iron ore many of the independent mining companies they stopped mining. So overall availability is reduced in Orissa. Over and about that logistics constraint, adding to that is the heavy monsoon. These three together we could not operate the plant in the smooth manner in the last quarter. That is the reason why the costs really have gone up, fuel consumption has gone up, costs were very high. That is why the company did not do well. The EBITDA from BPSL was a negative Rs. 183 crores. Same story in the Coated, Coated there was high inventory of hot roll coil which were at higher level. The high-cost inventory was to be absorbed. That is why even Coated has shown a negative EBITDA. Even though there is a positive EBITDA from other subsidiaries like ARPL and JIGPL, net-net after netting off the negative EBITDA from Bhushan Power and Steel and JSW Coated, the contribution to the overall consolidated EBITDA from domestic operations unfortunately was a negative to the extent of Rs. 48 crores. Overseas also similar story. That is why you would find that the consolidated EBITDA was only higher by Rs. 10 crores over standalone. But in the overseas, the Baytown in USA has done reasonably well because the plate prices have not fallen to the extent that HR coil prices have fallen even though demand was weak in the US. The Baytown facility showed an EBITDA of $24.7 million whereas Ohio, they had high-cost raw material inventory like pig iron and the scrap which was to be marked down so that prices have come down. There was inventory losses which was there in Ohio. That is why the operating EBITDA loss in Ohio was $40.26 million. Net-net we have lost in US, $15.54 million. In Italy there is a positive EBITDA of €1.02 million. So, net-net even overseas have not positively contributed. Negative EBITDA of Rs. 191 crores. Even on a consolidation basis there was some positive contribution in the consolidation entries, the net incremental contribution on consolidation of overseas and domestic subsidiaries together is only Rs. 10 crores. The consolidated EBITDA therefore was Rs. 1,752 crores which is Rs. 3,052 per tonne.

There are two more items below the EBITDA line which are exceptional items that is relating to our sale of 70% holding in Chilean mines. As you know in the previous year, we have fully provided for the Chile iron ore mines that we stopped operations there. Subsequently we have sold our holding of 70%. But during this period there was foreign currency translation reserve as per the accounting standards as and when we sell, we can revert to P&L. So that amount was Rs. 335 crores. Because this is an exceptional item we have shown below the line. So, this is our one item which is appearing as exceptional, Rs. 335 crores. The second is relating to Bhushan Power and Steel. Bhushan Power and Steel had a coal mine which got canceled. They had incurred certain expenditure. They made a claim. Those claims were admitted and part of the amounts were received. That's why we have booked as an exceptional item which is Rs. 256 crores. There are two items together is Rs. 591 crores. I will spend one minute on the one-off items in the Q2. The way I explained in the Q1, there is approximately Rs. 1,480 crores in the consolidated accounts which are one-off items. These one-off items are NRVs, inventory losses, foreign exchange losses on account of translation of outstanding foreign currency debt and the export duty paid on the exports. All this put together is Rs. 1,480 crores which will translate to Rs. 2,578 per tonne. If these one-off items are not there the consolidated EBITDA which is Rs. 1,752 crores could have been Rs. 3,232 crores which would have covered full interest and depreciation. With this exceptional item and one-off items plus negative contribution from domestic and overseas subsidiaries and fall in the margins in the standalone operations, the profit after tax was a negative Rs. 915 crores in this quarter. The debt as of 30th June was Rs. 65,719 crores which is lower by Rs. 1,502 crores. But the foreign currency translation has increased the debt for the first half of the financial year by Rs. 2,584 crores. That means if foreign currency translation loss is not there, debt could have been lower by Rs. 4,000 crores whereas this Rs. 2,500 crores translational loss increased the debt to that extent. That is why the debt as on 30th September was Rs. 65,719 crores.

The acceptances on the revenue account is $2,484 million and the capital account is $31 million. The debt to equity is 1.04, debt to EBITDA is 2.7x. We have spent capex of Rs. 6,694 crores. We have commissioned TIN-2, we have commissioned our CAL 2 in our downstream unit. We have also commissioned Battery A of our coke oven plant. So whatever coke we are buying in the Q2, a significant captive coke is available now. There is no need for us to buy the coke. Similarly, we have commissioned the power plant at Dolvi. So, our power cost also will come down in the Q3. These are the units which we have commissioned in the Q2.

The project under implementation, the 5 million tonne at Vijayanagar is going on as per schedule. We will complete by 31st March, 2024. Similarly, downstream color coating line at Rajpur and also Jammu and Kashmir is going on. They're all scheduled. We are looking at as per as the Q3 is concerned more positively because we have given the guidance of 25 million tonnes production and we also said 24 million tonnes of sales. So whatever production we have achieved 11.19 million tonnes of total crude steel production in the first half of the financial year, we will be able to achieve the balance in the second half. We will be very close to our guidance of 25 million tonnes. Similarly, sales we have given the guidance of 24 million. We have done 10.12 million tonnes in the first half. So, we will do the balance in the second half and we will achieve our guidance for the full year. With that I will stop here and any questions we are here today. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Amit Dixit from ICICI Securities.

Amit Dixit: I have a couple of questions. The first one is essentially on coking coal costs. So, while you mentioned that coking coal costs in consumption terms have gone down by just $40 in this quarter. How much do you expect it to come off in Q3 FY23? That is the first question. The second one is on the realization drop. So, while QoQ realization drop was expectedly steep, however, going ahead there could be certain contracts that could be renegotiated downward. So do you expect a further slip in blended realization going ahead despite spot prices remaining broadly stable QoQ? These are the two questions.

Jayant Acharya: I think on the coal side, as far as Q3 is concerned, we see a drop in the coal flowing through into our system. The coal on a quarter-to-quarter basis should drop in the range of $80 odd. Quarter 2 to quarter 3. As far as prices are concerned, prices, as you rightly said, the normal prices, the monthly prices have bottomed out. More or less we feel that contractually also prices are now stable except for maybe small quantities which may get recalibrated, we do not see any further drop in blended realizations in Quarter 3.

Moderator: Next question is from the line of Satyadeep Jain from Ambit Capital.

Satyadeep Jain: A couple of questions. One is, I think it's a lingering question for the past few months on the export duty, it's been a few months now and all the companies have not recalibrated their capex. What confidence is there that by the time these capacities come we are not looking at a situation where the export duty is there and there's oversupply of steel in the domestic market? Is there anything that gives management confidence to go ahead with the capex plan as of now? That's the first question.

Seshagiri Rao: If you see we're the WPI number which the Government of India has been giving month after month, if I see the September month, they are showing the inflation in the steel prices since September is 4.5% as against 27% in the month of April 2022. That means even as per the WPI number, the steel inflation number has come down from 27% to 4.5%. Last time also, I was explaining, if you see the same SteelMint numbers which have been published, for flat steel in the month of September versus September of last year, it has fallen by 14%. So there will be little bit of lag by the time it gets reflected in the WPI numbers. Therefore, these numbers are being closely watched even by the government. They have been telling us that the whole purpose of imposing the export duty is to contain inflation. So, the WPI is already reduced from 15.4% in the month of April '22 to 10.7% in the month of September. So, it has come down drastically. If somebody analyzes the composition of this 10.7, it is not from manufactured products. Manufactured product contribution is very limited, even though the weight of this is 64.2%. So, considering this, we feel that the Government of India will take a call on the export duty because the objective is to reduce the inflation, but not to discourage export of steel from India.

Satyadeep Jain: I'm guessing we talk to the government on this, possibly continue to be constructive. Just a second question. You mentioned imports have picked up in the recent past. Can you remind us where is the import parity? I think some confusion and our Indian steel prices trading at premium to import prices and can that last? And related to that would be typically we would see some kind of you mentioned supply response globally. I know demand situation is relatively better here, but given the margin squeeze, where are the high-cost players in India and do you see some response whether it is hot idling, banking, that we historically seen in the industry when there's a downturn and there's a margin compression?

Jayant Acharya: From an import perspective first, so imports if you see coming into the country are arrivals which have been booked also probably 2-3 months back. Some of them were Russian as well, which have started coming into the market now. Post the depreciation or rather the strength of the US$ versus the ruble, the bookings from Russia have also dried out. We are seeing very little change in the international arrivals coming in terms of price, by and large price offers have stabilized. From a price perspective, I don't see there is too much of change between the current prices of international levels to further drop, so I don't see that eventuality. But from a volume perspective, the downstream products we see that the imports have picked up and that is mostly in this cold rolled and coated space. We feel that this will maybe even out in this quarter. We don't see too much of imports coming in since the viability of the international market also to supply at low prices is very limited. Going forward I think imports should also stabilize.

Satyadeep Jain: Second related question to that in terms of supply response within the domestic market.

Jayant Acharya: Supply response from the domestic market, so if you look from a domestic growth perspective 11.5% is the growth in the domestic market in India vis-à-vis last year. Our demand is roughly at the 56 million tonnes range in the first half of this year in India. Going by the growth rates in the past, if we grow at about another 12% rate in H2 as well, we are likely to end with number anywhere between 115 to 117 million tonnes of demand in this year. Indian domestic demand is therefore showing a very strong growth driven by, we are seeing various sectors contributing to this construction, infra is one of the primary sectors here. In the last two quarters the orders which have been tendered and basically placed, contribute to almost 19 million tonnes of additional steel requirement, project announced and projects tendered. If you look at the automotive as well, the automotive which was let's say 5 million units in Quarter 1 has gone to +6 million in Quarter 2 and going forward into Quarter 3, it is estimated that it will grow by another 8% to +6.5 million. If you look at general engineering side, I think we are seeing very good traction in various equipments like capital goods, infra goods, construction equipments, consumer durables, pumps and compressors, mining equipments, most of them are well above the pre-pandemic levels. So general engineering is also doing quite well. These are basically driving the demand in India. We therefore feel that in the second half, which is seasonally also a better period, the demand in India will be good. From a supply demand perspective, it will be well balanced. The sector which is likely to be more impacted here is probably the secondary sector which contributes almost 40% of the total production in the country. That sector will also be facing some pain with respect to higher cost of energy coal and higher disruptions maybe because of higher interest rates which are likely to pan out in the remaining part of this year. Maybe there will be some outages from those smaller producers which will be there in the market as well to balance the supply and demand situation.

Satyadeep Jain: Just want to clarify, you are saying given where international prices are domestic, you don't see any pressure on domestic prices at the current international prices or import parity prices.

Jayant Acharya: The international price ranges anywhere between $620 to $650 in that level in different countries. You will find low offers, maybe slightly below that as well but those are far and few. If you were to maybe take these numbers with a depreciated rupee, we are not too far off from the domestic prices. If you take countries which have an import duty into the country then vis-à-vis that I think domestic prices are well placed.

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

Vishal Chandak: My question was with regards to the long-term expansion plans. Now we had in the past seen that it was expected that the export duty will come off in a month, maybe in 2 months but it has not gone off even now and media report suggests that probably this could be at best looked at by the end of this financial year. In light of that, if these projects which we have and the competition has planned over the next 2 years, if they are still commissioned, we would see a deluge of HR coil in the market. How do we look at our projects from a long-term perspective? This year obviously is challenging. I'm thinking more from a long-term perspective, how do we look at these projects?

Jayant Acharya: From a hot rolled perspective, if you really look at the new capacities coming in, the current hot rolled, free hot rolled demand in the country is in the range of 22 million tonnes. If it is growing at a rate of about 10% to 11%, which we are seeing now, you will be seeing a demand of between 2 to 2.5 million tonnes of hot rolled coils on a free hot rolled basis. That is net of captive consumption for cold rolled coated downstream consumptions. That is by and large one mill a year, which is required in India to basically balance the overall demand situation. The capacities which would be coming up in the country in the next 2 to 3 years; if you look at it, I think that is more or less matching, if you take a 3-year time frame with the kind of demand generation we are seeing. Keeping in mind that exports have sharply come down in the last 6 months, the next few years we will see a calibrated exports coming back. Therefore, in addition to the domestic demand, which we just spoke about, let's say 2.5 million tonnes each year, in 3 years 7.5 million tonnes, the balance can easily be placed in the domestic market. So, in the next 3 years I think from that perspective up to 10 million tonnes capacity in India can be easily absorbed.

Vishal Chandak: Just one more follow up question on the debt side. Do we have any plans, given the downturn in the steel sector? Do we have any plans for conserving cash, reducing debt or we still would want to proceed with our announced projects with the same aggressive speed as we have done in the past?

Seshagiri Rao: As far as debt is concerned, on a relative basis still we are at 2.7x debt-to-EBITDA and debt-to-equity is 1.04x. The projects which we already kicked off is in advance stage and by completing by 31st March '24, there will be a huge advantage in terms of capacity that would be available with us when India requires more steel in the year '2024-25. Therefore, we are not looking at now to stop the projects and reduce the debt. This debt we continue to work on how to bring it down from the current levels as we have done in the first quarter in spite of lower EBITDA, lower free cash flow, in spite of spending Rs. 2,900 crores on the capex, we reduced our debt by Rs. 1,500 crores in the Q2 over Q1. This effort will continue. One important point here is we have reduced our inventories by 4,34,000 tonnes in the last quarter and used that cash to reduce the debt. We are also planning in the second half to reduce our inventories by another 4 lakh tonnes in the second half. With that, more cash will be available to reduce the debt. Our effort is to reduce the debt and at the same time complete the capex program which we already announced as per the schedule.

Vishal Chandak: Actually, my question was more with regards to the additional capex that we had planned, beyond 2024?

Seshagiri Rao: Beyond '23-24, we have not announced anything. We are just watching the situation. At appropriate time, we will take the call. We have no plans now to announce any fresh capex.

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

Sumangal Nevatia: My first question is on our volumes. We've done a very good job on the sales front and in the opening marks, you mentioned that we have gained market share. I just want to understand as far as what are we doing right here to gain market share and whom are we taking market share from? It is from the secondary steel sector or also from the primary steel producers?

Jayant Acharya: As we said, there are certain areas we have done well in the domestic market. So, one of them is that over the last few years, we have been consistently developing our retail network both in terms of deeper penetration and increasing our reach. We have been able to now have more than 1,500 branded stores across the entire country. These are direct branded stores in addition to our distribution, in addition to the retail. Out of the in the last quarter we have done about 217 new stores. Out of that, 120 are in the new towns and about 100 odd, 97 odd are in the existing towns. Every quarter we continue to add our retail, branded retail network in new towns, increasing our penetration in the rural market. Therefore, you will see the results of this across all our sales in the retail sector, across various product lines. Just to give you a feel in color coat, in the total coated business in the first half of this year, our total domestic sales have gone up by 64%. Our color coated SOB is now at (+61%), our galvalume, we are at almost at 78% level. At tin plate we are at (+40%) level. In the value-added space apart from these products, we have penetrated in the cold rolled market as well through our retail channels primarily again, automotive market doing well. So, II Tier, III Tier vendors, replacement markets have drawn in a lot of cold rolled as well. The retail market through an active participation, through branded retail, through reaching out to MSMEs, has done quite well in a structured way. In addition to that, we have been able to tap the project markets quite well. Oil & Gas, Wind from our Anjar plate mill, we have been able to tap those markets. Automotive we have continued to grow, our business in automotive, share of business in automotive has also moved up and we are continuing to do well in the OEM space like appliances, OEM going into solar, OEM tin plate packaging manufacturers. By and large across the industrial space also we have done well. These two have contributed to an increased domestic share. I would say we have replaced some part of the secondary market where especially in the long product space where the prices of the secondary if you were to look at rebars or wire rods are not very different from where the primary prices are and therefore today given a choice at the same price level, primary is being preferred. Also, the secondary mills had certain outages because of monsoons, because of iron ore supply disruptions in the last quarter, we have been able to replace and dip into those pockets as well. So, by and large these are the reasons why we have been able to do well in volumes.

Sumangal Nevatia: The next question is one on iron ore. Given the lag in IBM prices, what sort of cost reduction in iron ore did we see in 2Q and what would be in 3Q and also in the international operations against these 198 crores odd loss; what is the guidance given that both in US and Europe the macro is just deteriorating further. So just some guidance on the international operations as well?

Seshagiri Rao: On the iron ore side, whatever reductions that have happened in the last quarter it has happened in phases, it has not happened in month of September. The full benefit of that reduction will get reflected if not more reductions in this quarter. Number two is as you rightly said, the IBM prices got revised downwards, particularly low-grade iron ores so that benefit also will come now from Q3 onwards. I will not put a finger here and say this is that reduction which can happen but there will be a significant flow of lower cost of iron ore plus lower cost of coal plus lower cost of power that would come in the Q2.

Jayant Acharya: What was the second question you had mentioned?

Seshagiri Rao: Overseas. Yes, and regards to the overseas operations are concerned, as I mentioned that the plate prices have not fallen the way HR coil prices have fallen but there is a huge difference. This difference is not sustainable in our view so when HR coil price is at over $800-900 and the plate price is at $1,600-1,700 there is a huge difference. There will be some correction in our view in the plate prices. The kind of EBITDA we have seen in Baytown may get moderated but at the same time the losses will not be there in Ohio. Why we are saying there won't be any losses because we have already done mark-to-market for all the raw materials at Ohio as on 30th September. We don't expect further drop because we feel that it has bottomed out as far as prices in USA is concerned. So, with that we don't expect a very big negative from US. If at all it could be positive from here on.

Sumangal Nevatia: This exceptional of Rs.1,480 crores is that's the consol level, right? Is it possible to share the breakup of what is NRV, export duty, MTM?

Seshagiri Rao: The inventory and NRV together is around Rs. 1,100 crores. Foreign currency loss is around Rs. 330 crores and export duty is around Rs. 60 crores.

Sumangal Nevatia: And at the standalone level, will it be any different?

Seshagiri Rao: It is significantly lower - Rs. 1,480 crores number is Rs. 706 crores.

Sumangal Nevatia: And the breakup, if it's possible?

Seshagiri Rao: FX loss is around Rs. 150 crores; duty is around Rs 25 crores and Rs. 530 crores is inventory loss.

Moderator: The next question is from the line of Indrajit Agarwal from CLSA India.

Indrajit Agarwal: One on the recent induction to the board and what is the end outcome here that we expect from like we have inducted Mr. Fasswald from the SMS and does it anyway link to our green steel or low carbon steel objective over the medium term?

Seshagiri Rao: When you see our Board of Directors composition, we wanted to have each skill that is required to have an effective board. We induct that person with that skill. So earlier, Mr. Malay Mukherjee who was a Technical Director on our board, Independent Director on our board, unfortunately he expired so we have filled up this position with a Technical Director. Then we have scanned various candidates. We find this person whom we have inducted has a very good experience in this area. He has credentials, he has Indian experience and overseas experience. He has worked in the steel related sector for a very long time. Therefore, his contribution we feel is very immense to the board. That is how he got inducted and whatever experience he has, I think he will continue to contribute in calibrating the strategy of the company.

Indrajit Agarwal: Second is on this MoU with Smartex, any kind of capex or broad targets we have in this in terms of medium-term? I understand we have a $1 billion de-carbonisation fund. Anything over and above that, that we look at over the medium-term?

Seshagiri Rao: Smartex is having a lot of potential because it is a very comprehensive ecosystem, he has created on one platform. In this platform, he not only get the funding, he arranges funding for the potential projects, he also brought in the entire research ecosystem into the platform and he also brought the users of that technology on pilot basis and later on to commercial basis. Now to arrange funding for pilot projects and also if required on the commercial basis. So, that way it is a very comprehensive end-to-end solution for migrating to green steel solution. So, we have signed an MoU and trying to understand each other better. It will take some more time really to share more details on that but it has lot of potential.

Indrajit Agarwal: My last question is on IBM price. The kind of disagreement that we have in terms of the surveyed price by IBM about a couple of quarters back. Do you think that is passed us currently? Are the IBM price more or less in sync with the market prices or do you think there's still some bit of differentiation that is still to be corrected?

Seshagiri Rao: No. In the MCDR rules there is always some inconsistency which does not reflect what is happening with the market prices because any captive mines supplying for captive purpose, they are excluded. Similarly, the non-captive mines, that is merchant mines which are got an auction, supplying for captive purpose, there is a different treatment as per the rules. So, there are certain inconsistencies which have been pointed out to the government. They are looking into it and there may be some changes which can come in the MCDR rules. That situation will remain but as on date if you look at it, it is better than what it was.

Moderator: The next question is from the line of Pinakin Parekh from JP Morgan Chase.

Pinakin Parekh: My first question is that if steel prices and currencies remain where they are; can we see a repeat of this FX-NRV losses to continue in the third quarter because the cumulative hit in the first half is over 3,400 crores on the P&L?

Seshagiri Rao: No, as far as the NRV losses are concerned, we don't expect NRV losses will come. Then as far as the inventory losses are concerned, there is still 1.8 million tonnes of inventory at the average cost of production of the last quarter, as on beginning of this quarter. So, the costs are coming down. Therefore, I don't call it as inventory loss, I call it as a lower margin on the opening inventory, that could happen. Then as regards to FX loss, there won't be any FX loss on revenue account relating to revenue side liabilities. But on the capital side, our policy will remain that we will continue to cover our liabilities on the capital account for the payments falling due within the next 12 months to 24 months. That policy is not changed whereas the foreign currency liabilities are longer. If rupee depreciates further from the level as on 30th September, there could be FX loss that could come in the future.

Pinakin Parekh: My second question is just going back on the balance sheet. If we annualize the first half reported EBITDA, the net debt-to-EBITDA is just over 5x. Now, the first half was impacted by multiple one-offs but at 65,000 crores debt and given the capex program that the company is committed to, where should the debt peak out from here and in this current steel margin environment?

Seshagiri Rao: Considering our cash flow position and our projections for the next half year so what we intend to do is not to increase this debt. We wanted to reduce this debt and also meet our capex program. In our view, we will be able to do it.

Pinakin Parekh: In the current steel margin environment, you believe the company would be able to do it?

Seshagiri Rao: Yes.

Moderator: The next question is from the line of Kirtan Mehta from BOB Capital Markets.

Seshagiri Rao: There is lot of noise so I am not able to hear you fully. If you can repeat?

Moderator: Mr. Kirtan Mehta may we request you to rejoin the queue please. The next question is from the line of Ritesh Shah from Investec India.

Ritesh Shah: A couple of questions. First for Jayant sir. Sir, you indicated in the next quarter we expect coking coal on consumption basis to decline by $80. Just wanted to have a sense on how should we look at this number into Q4? Have we booked incremental volumes given coking coal yet comes to 220-230 levels? So, should we see this benefit even Q4, that's one. Second is basically you indicated on pricing. If we just look at Korean Won, Japanese Yen, these currencies have depreciated far more than the Indian Rupee. So, if one had to take a price call even on import party basis into Q4, how should one broadly look at the spreads. So, the question is on spreads, partly on coking coal and partly on pricing. Thank you. That's the first question.

Jayant Acharya: So, on the coking coal side visibility beyond a quarter, Ritesh, is very difficult. So, as of now, what we are seeing is for the Q3, and this is where we feel that $80 will be a change, a drop from Q2 to Q3. But directionally, as you've seen in the last few days, coking coal has again climbed up somewhat. Again, it could be a traction for the winter months. We have to see how it goes and depending on how the situation pans out, it will impact Q4. But very difficult to give you a feel on how it will pan out in Q4. As far as pricing is concerned internationally, yes, there are depreciations of currencies against the dollar, but margins for most of the steel producers are quite stretched. Therefore, the ability to really put across steel at a very low price into India could be for some quantity, but I don't see that happening for large quantities. So, therefore, domestic point of view if you see in this volatile market, we notice that most of the customers with depreciation of the Rupee and the kind of volatility do not want to take a risk. Therefore, 2-3 months prior to, you know you have to book and wait for the material to come, not knowing how the situation is going to pan out gives you an automatic buffer. So, I think these two things combined, I feel that Q4, being a seasonally stronger quarter should be better from a perspective of both demand. And on a price side, as we said, it has bottomed out. Usually, the prices do go up in the Q4, we will see how the situation pans out from the economic and steel demand point of view.

Ritesh Shah: Perfect. This is very helpful. The second question I just read up in the JFE annual report. It talks about potential investment into speciality steel. If one relates to the PLI which is offered by the government of India, how should we look at this? There's obviously no timeline specified over there. If you could provide some color on how we could understand this.

Jayant Acharya: We have been discussing with JFE from a point of view of certain products to be basically got or rather produced in India and one of them is CRGO. That is still at an exploratory stage, and I think that's the one you may be talking about from a PLI angle as well. So, both the parties are discussing the project and the study is on. We will take a view soon and let you know once we have a full clarity of the project.

Ritesh Shah: Sure. If I just may squeeze in for Rao sir, would it mean some change in shareholding structure or how should we look at the inclusion? Like are we looking at a separate JV? How should we understand this, sir?

Seshagiri Rao: We're still discussing with them the modalities. First, we have to see that there is enough demand, and the project is viable, at what cost? These things, there is a feasibility study which is being undertaken by both the parties. So, I think in this quarter we will have more clarity on this. So, once that is done then we will look at the structure. But I don't think it will be any dilution of JSW Steel, that won't be there. Then we'll see. We'll explain to you the structure once we take the call.

Moderator: The next question is from the line of Abiram Iyer from Deutsche Bank.

Abiram Iyer: My question is actually pertaining to the FX impact, as you mentioned. Given the fact that our foreign currency debt currently trades quite low in the market, and we continuously sort of see an impact and the Rupee depreciation, is there any plan to initiate any buyback here? That's question one. And question two, if I may. Our current net debt, if we include acceptances as well, stands at around 3.5x. So, there any ratings pressure or is there any agency impact from the rating agency that you see going forward?

Seshagiri Rao: Number one, as far as the buyback of outstanding bonds are concerned there are a lot of regulations in India if we want to buyback. The due loan if we want to raise that has to be longer maturity than the outstanding debt and you should have a lower cost. So that'd be very difficult to do. In the meantime, any other window that is available for buyback out of Indian Rupee loans are out of cash accruals, we are examining that possibility for the buyback of bonds. But it is on the table. Number two, what is the next question you asked?

Abiram Iyer: I mentioned that if we look at acceptances as well, our net debt has increased to 3.5x level and given that upcoming quarters will also be a bit difficult, although this might be a trough, this will increase further. So, are we seeing any issues with regards to our ratings of the bonds?

Seshagiri Rao: From the ratings and the covenants point of view, there is no issue at all. Number two is if you see the outstanding acceptances on the quarter one was $2.74 billion, which is already brought down to $2.48 billion. When coking coal prices started coming down, this number continues to come down. So, therefore we don't expect any pressure from either point of view on covenants or from rating.

Moderator: Next question is from the line of Ritwik Sheth from One-up Financial.

Ritwik Sheth: My question is regarding the global supply and in that context the supply which is coming from India. If we see global capacities coming up and production has also dried up and the electricity cost is also higher significantly. In that context, once the export tax is lifted, what is the potential that we see in the export markets for Indian players and especially for us since we have a good amount of volume growth coming in the next two years?

Seshagiri Rao: As far as the export opportunities are concerned, I think it is possible for Indian companies daily to export flat products from India. Even though the demand is not very strong in the global market for the reasons which I just already elucidated. So, in the Asian and Middle East, these are two places where there is reasonably a good demand. So, even the WSA, if you look at it, they are projecting a positive demand growth in these two regions. Therefore, it is possible for India to compete and then export from the Indian markets. Number two, as far as JSW is concerned, we have now capacity at Dolvi, and we also now expanded at BPSL. So, it is possible to get additional volumes and then take this opportunity of exporting if duty is removed.

Ritwik Sheth: So now FY25 basis when we have more than 30 million tonne at standalone and BPSL level, what would be the ideal mix for our exports?

Seshagiri Rao: Exports, if you really see in the past, we came down as low as 10% and we went up as high as 30%. So, that is a range we continue to operate. We never exit. And at the same time, we don't export too much of quantities. So, that is how we manage based on export realizations and export demand under domestic demand and domestic price. So, in that range we will be there.

Jayant Acharya: Also, just to add one point here is if you look at the European market, the production cuts which have taken place in the last few months on an annualized basis it's almost close to 20-million-tonne equivalent. So, the situation of energy the way it is going forward, the situation of labor going forward, that space may not change too much. The energy cost will maybe stabilize, but it will stabilize upwardly. So, once the export duty from India which will go at some point of time, I think we will be able to get an opportunity into the European market back again with the kind of product base which we have been doing.

Moderator: The next question is from the line of Prashanth Kota from Emkay Global.

Prashanth Kota: I just wanted to understand from you the hedging consideration, whether or not to hedge our products that what is the consideration? How do you think about this? What is the hedging cost generally per annum to hedge, let's say $1 billion of your forex debt? Your thought process on this, please, if you could.

Seshagiri Rao: The cost of forward cover that is hedging cost is also volatile. If you look at few months back it used to be 4%. Now it is in the range of 2.5% to 2.75%. So, it has come down. Then, as far as the hedging policy is concerned after evaluating various options that are available, we have taken a call that all the revenue liabilities should be hedged 100%. And as far as the capital account is concerned where liabilities are spread over a period of time, it is 6-7 years, if you look at in the past period, the average rate of depreciation of Rupee is lower or equal than the rate of depreciation of the rate of forward cover. Therefore, if you hedge or don’t hedge, if you take the entire horizon of the tenor of the loan then we don't lose. But there could be some volatility because of that capital account translation is concerned. That is why we have taken a call short-term we will cover; long term capital account liabilities are concerned they remain unhedged. But accepting this translation loss sometimes it hits the P&L. There won't be any actual loss if you take the entire period of the loan.

Prashanth Kota: Just quickly one second question. Sir, you have done 5 million tonnes sales this quarter and the effort required to do this is huge, herculean effort, of so many plants, so many products, so many raw material movements, etc. But the EDBITA is not commensurate as you would agree, because of the industry constraints, etc., industry is not doing that great. But then we have to continue to grow and continue to meet the aspiration of the country in terms of demand, as a sector also, as JSW also we will do that. And on top of it there is a decarbonization, etc., which may require spending in future. Is it fair to expect that government also contributes something to this decarbonization efforts to the sector and to the industry and to JSW? What is your view, sir?

Seshagiri Rao: I fully share your view. This decarbonization requires a huge amount of capex. This is a big challenge for the entire industry. So, there are enough representations to the government that they should facilitate either grants or concessional finance for the industry to transition to decarbonization. But I am not sure how much it can happen. But in the developed world it is happening. If you look at either Europe or Canada or other countries, there is a huge amount of support that is being given by the government. So hopefully that will come in, if not by the government by the various other parties who are willing to support this initiate.

Moderator: I now hand the conference over to the management for closing comments.

Seshagiri Rao: Thank you very much. And as far as Q2 is concerned the majority of the losses is attributable to one-off items or fall in the selling price. Now that is behind us. In the Q3, we have extra volumes that are coming in plus the incremental inventory which was built in the first quarter of this financial year, another 4 lakh tonnes we will be able to sell. And our BPSL we have completed another 0.7million-tonne expansion. That incremental capacity is there. Dolvi expansion project is operating at 80% capacity utilization so that can increase production. At Vijayanagar last quarter it suffered again lack of iron ore. So there, there is a possibility of incremental capacity production that can come in. So, there will be more volume in the second half and the reduction in coking coal price and iron ore price and the power cost will come into the consumption in the next quarter. So, second half we are looking at much positively. And at the same time Indian steel demand is expected to better post monsoon and post festive season. So, we are looking at more positively the second half and we are focusing on completing the balance capex program as we have planned, and everything is going on track. So, with that I wish you and your families a very happy Diwali. Thank you very much.

Ashwin Bajaj: Thank you ladies and gentlemen. Wish you a happy Diwali and feel free to get in touch if you have further questions.

Moderator: Thank you very much. On behalf of JSW Steel Limited, that concludes this conference. Thank you for joining us. You may now disconnect the lines.