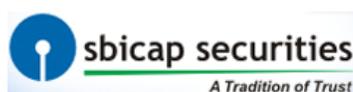




“JSW Steel Limited
Q3 FY2020 Earnings Conference Call”

January 24, 2020



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Moderator: Ladies and gentlemen, good day and welcome to the JSW Steel Limited Q3 FY2020 Earnings Conference Call of hosted by SBICAP Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, 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. Dayanand Mittal from SBICAP Securities. Thank you, and over to you Sir!

Dayanand Mittal: Thank you, moderator. Thank you everyone for joining in today for JSW Steel's Q3 FY2020 Post-Results Conference Call. So, we have with us the entire senior management team of JSW Steel. So without further delay, I would like to hand over the call to Mr. Pritesh Vinay, who is the VP, Corporate Finance and Group Investor Relations. Over to you, Sir!

Pritesh Vinay: Thank you Dayanand. A very good evening to all the participants, and we welcome you to JSW Steel's third quarter fiscal 2020 results earnings call. We have the senior management team of JSW Steel represented by Mr. Seshagiri Rao, Joint Managing Director and Group CFO; Dr. Vinod Nowal, Deputy Managing Director; Mr. Jayant Acharya, Director, Commercial Marketing and Strategy; and Mr. Rajeev Pai, CFO. We will start with a few minutes of opening remarks by Mr. Rao, and we then open the floor for Q&A. With that, over to Mr. Rao!

Seshagiri Rao: Good evening, I welcome you all for the briefing of our quarterly performance for the Q3 for FY2019-2020. As you have seen, the slump of September 2019 quarter continued in the month of October. The prices further declined, but at the same time, globally, we have seen price improvements due to supply adjustments, so that led to a restocking, which started happening from November 2019 in India. Everybody expected that the domestic prices would look up. With that, the destocking that has happened in the previous quarters turned into restocking in India. Over and above that, government of India's revival in the expenditure and release of disbursements to various contractors also brought back the demand in the construction and infrastructure segments. With that, we have seen November and December are far better months compared to September and October.

In India, the imports also have fallen in the third quarter by 26%, and exports went up by 86%. This also helped for destocking, not only by the channels, even at the producer level; there is a significant reduction in the inventories, which has happened in this quarter. So in this context, if we see the JSW Steel performance, I am very happy to share with you, we



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once again crossed the 4 million mark, both in terms of volume of production and volume of sales. Crude steel production for the quarter was 4.02 million tonnes, which was higher by 5% quarter-on-quarter and the consolidated sales, 4.032 million tonnes, which is a growth of 13% quarter-on-quarter. This type of achievement of volumes in the consolidated sales is driven basically by a significant improvement in the domestic sales, which have gone up by 25% quarter-on-quarter and 11% year-on-year.

Exports even though slightly moderated to 0.95 million tonnes from 1.09 million tonnes in the previous quarter. So there is approximately 50,000 to 60,000 tonnes moderation in the exports, but what is important to note in this quarterly results is that the domestic sales have gone up over 3 million tonnes in the quarter, which is a 25% growth. This improvement in the domestic sales are driven by retail sales where the growth was 33% and the sales in the OEM segment by 21% and even in the auto sales segment, we improved our volume of sales by 10%. Our value-added products share has improved to 50% from 46% in the last quarter. We also used this opportunity of buoyancy in the demand by reducing our inventories by 2,45,000 tonnes to 10.78 million tonnes from 13.23 million tonnes. So there is inventory reduction, there is improvement in the domestic sales, and there is improvement in the retail sales, therefore, volume-wise, we have done quite well in the last quarter.

The prices are concerned blended NSR, year-on-year basis 23% fall and in the quarter 7% fall. The reduction in the NSR, which was continuously happening in the first half, the July, September, and August impact that, has come in the full quarter. There was further fall in the month of October in the NSR. Even though there was an improvement in the month of November and December, the overall net fall in the NSR on a blended basis was 7% in this quarter on a quarter-on-quarter basis. The cost of production has come down by 5% in this quarter. It is majorly driven by the coking coal prices on an average has come down by \$30 on quarter-on-quarter and also the captive iron ore supply at 1.22 million tonnes and other efficiencies, which brought down this reduction of cost by 5%.

The EBITDA per tonne is Rs.6,622 on a stand-alone basis, which is 16.9%. The operating EBITDA was 2,667 Crores and the profit after tax 691 Crores for the stand-alone company. The domestic subsidiaries have done well, JSW Coated, JSW Industrial Gases, and Amba River Coke, they all contributed together 265 Crores. Overseas remained a drag. It is almost at the same level of negative EBITDA of 335 Crores even in the Q3. Considering both the domestic subsidiaries and overseas subsidiaries, the operating EBITDA on a consolidated basis was 2,451 Crores and profit after tax on a consolidated basis was 187 Crores. I would like to invite your attention to one-off item, that is Rs.250 Crores income, which the



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company has received during the quarter on account of assignment of a long-term contract signed by the company for industrial gases.

Originally, when the contract was signed, assignment was not permitted. Subsequently, because of certain regulatory issues, they approached us to transfer this contract or to assign this contract, to accept the assignment of the contract, for which they paid a consideration of 250 Crores to us. So that is one-off item. So when I say Rs.6,622 was the EBITDA per tonne on a stand-alone basis that includes this Rs.250 Crores, which we have got during the quarter. That amounts to Rs.621 per tonne. If I adjust this amount, actual EBITDA for the quarter is Rs.6,001, but at the same time, what is also important to understand the results properly, we had 13.23 lakh tonnes of inventory as on September 30, 2019. These are high-cost inventory that is sold during the quarter, so these inventory losses on a stand-alone basis if I look at it, it is Rs.221 Crores on a consolidated basis, including coated and also overseas, it is Rs.300 Crores. So, this 221 Crores on a stand-alone basis will translate to Rs.550 per tonne, so the Rs.550 gets added and Rs.620 gets deducted, so the net impact is only Rs.70 to the 6,622 to be adjusted.

The net debt of the company was lower by Rs.88 Crores. It was 49,552 Crores as against 49,642 Crores as on 30th September. We could also reduce our weighted cost of interest by 30 basis points during the quarter. It was at 6.52%. Acceptances on revenue account was 1,274 million and acceptances on capital account is 543 million. Debt to EBITDA 3.71 and debt to equity 1.35. Then the tinplate, which we have commissioned in the last year at our Tarapur unit, that is stabilized. There is a growth of 14% in the volume of tinplate production, so that will ramp up further. We have also commissioned the PLTCM at Vasind in the downstream unit, so certain projects are getting commissioned as regards to downstream.

Because of the monsoon, which we explained in the last call, that got extended to October and also part of November that impacted the overall construction activity at Dolvi and also partly at Vijayanagar. We tried our best to cover part of these delays, but taking into account the progress of work on the ground, there could be some delays. These delays will range from 3 to 6 months, so instead of this Dolvi project getting commissioned on March 31, 2020 in full, that will get commissioned fully by June or maybe 1 or 2 months this side or that side, so we are giving a guidance of 3 to 6 months maximum, before which the entire Dolvi project will get commissioned. We also completed the acquisition of Vallabh Industries Limited. We paid a total consideration of 63.5 Crores.



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There are 2 things, which we have achieved in this acquisition. One is, our holding in the JSW Vallabh Tinplate went up from 50% of erstwhile holding to 73.5%, so that is one thing we could achieve. The second is, they have a color coating line, whose capacity is around 40,000 to 50,000 tonnes per annum, so we could now supply our CR or hot rolled coils to this unit and convert into color coating and sell in those markets and get the additional EBITDA on color coating. We also started the fifth mine in Karnataka, that is Rama Mine, plus the last category C mine, which we have got, that also will get commissioned in the next few days. With that, all the 6 category C mines, which we got in Karnataka, will get commissioned, so the guidance of 4.5 million tonne from captive sources we will be able to accomplish in this year.

The guidance for the year, which we have given as 16.5 million tonne of production and 15.5 million tonnes of sales, we will be able to achieve this guidance considering the progress and the outlook for the Q4. The supply side adjustments and also the restocking that we are seeing in the marketplace, change in the sentiment and the national infrastructure pipeline, where they said they will be spending 19.5 lakh Crores on the infrastructure in the year 2020-2021, as against 13.5 lakh Crores in the year 2019-2020. There is a significant increase in the outlays in the infrastructure segment that is quite sizable 6 lakh Crores incremental expenditure the government would be spending on the infrastructure pipeline, which is a 43% growth, that is also good for the industry, steel industry, in particular.

The total steel demand in India went up around 3.5% in the first 9 months. Considering the outlook for the Q4, we expect the total demand will be 4% for the entire financial year and the next year, this 4% will pick up further for the factors, which I just enumerated, and it will be around 5% that is what we expect for the next year. Our overseas operations, we expect in the Q4, our European operations will become EBITDA positive and in the case of US operations, we will be able to reduce our EBITDA losses substantially in the Q4. Monnet Ispat, we are restarting the blast furnace, heating already started. That company will start the blast furnace by end of this month or early February, with that, the Stage 1 turnaround, which we planned for Monnet, will get completed in this quarter.

With this, I will stop here and if any questions or clarifications, we are open to clarify. 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 Edelweiss. Please go ahead.



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Amit Dixit: Thanks for taking my question, Sir. I have 2 questions, the first one is on the drop in NSR, what we saw actually that the exports were also down, that should have helped us; however, NSR still dropped quite substantially, is it possible to explain in terms of segment-wise that how much drop did we see in autos and how much drop did we see in retail, in particular for us to better understand the decline?

Seshagiri Rao: The drop in NSR in the month of July, August and September, that fully got reflected in this quarter. October, there was a further drop in the prices, the steel prices in India. Adding to that, auto sales contracts got re-priced on October 1, 2019, generally as you know, it is 6 monthly pricing, so April to September, as the prices of steel are falling, the auto steel pricing got reduced for 6 months, that impact is almost close to Rs.6000 per tonne, so these 2 together has made the NSR coming down on a blended basis by 7%, but important point here is, after having seen the price increases globally from \$430 to close to \$500 right now, November and December, there was price increases that have been taken by the company, which has been absorbed by the market, so one more increase we have done in the month of January, so therefore, these increases which have happened in the month of November and December only partially came in, in the last quarter that will come fully in this quarter.

Amit Dixit: Great, Sir. The second question is on the iron ore cost, we have seen a sharp iron ore price uptick in the month of January, both in Odisha and by NMDC, now given the fact that iron ore bidding is due, do you expect iron ore cost to go up further in the country, if so, what cost increment can we see purely from iron ore and coking coal in Q4 compared to Q3?

Seshagiri Rao: As far as coking coal is concerned, we expect the current prices, the benefit that would come in the Q4 on a blended basis would be around \$10 per tonne. As regards to iron ore, you are right that the prices in the month of January went up, but if somebody had observed, the private mining company's prices in Odisha have been revised twice, but after this amendment for a seamless transfer of statutory clearances, they rolled back part of these increases. Now the auctions have been announced. It is starting on January 31, 2020, and it will end on February 28, 2020. When the successful bidders are declared on February 28, 2020, and then seamless transfer of mines plus large amount of iron ore stocks that would be lying in various mines including SAIL, we do not expect prices to go up, already the type of trend we are seeing at least from private mining companies, that is what we expect to happen.

Amit Dixit: So you expect basically iron ore price to go up by whatever it has gone up, so far around Rs.500 a tonne or something, that would be a max rate that you can get?



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- Seshagiri Rao:** Right. It will not go up further. It may get corrected downwards.
- Amit Dixit:** Wonderful, Sir. Thanks and all the best.
- Moderator:** Thank you. The next question is from the line of Anuj Singhla from Bank Of America. Please go ahead.
- Anuj Singhla:** Thank you very much for the opportunity. So Mr. Rao, first question on the international operations, now these operations have been bleeding significantly for the last 5 quarters or so, if I just look at Acero Junction, the cumulative EBITDA loss at this operation alone has been \$130 million over the last 5 quarters, and this is a major drag on the cash flows of the company as well while we are embarking on our growth plans in India, on these counts, what kind of comfort we can draw for FY2021 or FY2022, where do we see this number going and what is the game plan there in terms of turnaround of the operations there?
- Seshagiri Rao:** No, if we look at these 3 operations, which we have, Ohio, Plate and Pipe mill and also in Europe, Europe I already gave the guidance that in this quarter, we become EBITDA positive and European operations will turn around in the next year. If I look at the Plate and Pipe mill, their Phase 1 is complete, there is losses of \$12.5 million, \$13 million, which is declared in this quarter, will come down drastically as far as Plate and Pipe mill is concerned. It may not be positive in this quarter, but it will come down drastically in the Plate and Pipe mill of USA, next year, it will be positive. As far as Ohio is concerned, we have plans to ramp up the production because prices have dropped quite significantly in the US, so that had an impact on the Ohio operation and our turnaround plan. What we intend to do is to quickly ramp up and then make this unit EBITDA positive, that will be achieved in the next financial year, so in this quarter also, it remains EBITDA negative, but at a lower level than what we have reported of \$25 million EBITDA loss in the Q3.
- Anuj Singhla:** So you are not factoring in any kind of pricing recovery in the US turnaround is primarily premised on ramp-up of operations in the next year, is that a fair statement, Sir?
- Seshagiri Rao:** Prices are recovering, that also will help for becoming EBITDA positive, that is one. Number two, as far as the plate mill is concerned, the Phase 1 is complete. The benefit of that will come now and Phase 2 also will get completed by end of next financial year, so these 2 together will really turn around the Plate and Pipe mill in the USA. In the case of Ohio, what we are planning to do is, we are also spending some money on the electric arc furnace modernization, so that EAF modernization will take 10 to 11 months time. Pending that, with the existing equipment, we are trying to stabilize, ramp-up capacity and take the



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benefit of improving US market and pricing. There we will reduce the losses and we will make it EBITDA positive next year. I think following year, we will be able to make money in Ohio.

Anuj Singhla: Understood. Sir, can you just give the numbers on the capex, which we have done for the 9 months and what is the remaining capex for the fourth quarter and any update on the capex number for the next year?

Seshagiri Rao: Capital expenditure for the quarter, which we spent on a cash flow basis is 2,812 Crores, so for 9 months period, cumulatively, it is 7,767 Crores. We have given the guidance of 11,000 Crores, revised guidance, so we will be spending the balance amount and complete this 11000 Crores capex program for the year. For the next year overall capex, we will come back to you in the month of May.

Anuj Singhla: Sir, lastly you talked about steel prices going up on a Q-o-Q basis, any kind of numbers you can give on that, what kind of recovery we should be expecting on an average basis?

Jayant Acharya: So on the bottom side, if you see in October, the prices had gone down to levels of 430s, so that is now at a level of 500, so from the bottom, \$70, international has moved up. We have moved part of this between December and January. We are watching the market and we are hopeful that some increases would take place in the coming months, so we should be able to do better going forward vis-à-vis last quarter.

Anuj Singhla: Understood. Thank you very much, Sir.

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

Ritesh Shah: Thanks for the opportunity. Sir, my first question is, any specific details that you would like to share on Bhushan Power and how do we look at the asset going forward?

Seshagiri Rao: Bhushan Power and Steel, as we explained last time, we are looking for immunity before we proceed, so there is an amendment, which has been done, and the applicability of that amendment to resolution applicant, that is JSW Steel, the NCLAT sought information or a confirmation from investigating agencies. They have submitted affidavits, which are again not very clear. Based on that, yesterday, there were certain arguments in the court. It is finally decided that the next hearing will happen on January 30, 2020, hopefully, I think it will get resolved very quickly, if not on 30th, in the month of February.



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Ritesh Shah: Sir, just to question this, basically, there was an amendment, which was already done, so what is the aspect that the court is looking at, is it like can it be made applicable on a retrospective basis or not, if that is the case, what is our stand over here?

Seshagiri Rao: No, basically, if you read the ordinance that has been passed, that is introduction of Section 32 in the IBC, that section is talking about immunity will be available to the corporate debtor subject to that the resolution applicant is not a promoter or promoter related or not a related party and the change of control should happen other than the promoter. Basically, this is the summary of that. So therefore, last time, JSW Steel sought a confirmation from the investigating agencies that this Section 32 is applicable to JSW, so there is no issue on this one. So they filed an affidavit saying that there was some joint venture by JSW Steel and Bhushan Power & Steel that is Rohne Coal Company Private Limited. In that company, Bhushan Power is an associate of JSW Steel, therefore, the Section 32 says, change of control should not be to an associate. JSW Steel is an associate company of Bhushan Power & Steel, therefore, Section 32 is not applicable. That is one argument. Second argument they tried to give about retrospective and prospective effect of this ordinance. This ordinance is applicable for the resolution plans approved or passed by the NCLT and the resolution plan submitted by JSW Steel was passed on September 5, 2019, and the ordinance is subsequent, so these ordinance is not applicable to the resolution plan, which is already approved by NCLT. They are the 2 arguments basically that were given. As per our understanding is that this is effective for all resolution plans, whether there is no qualification, as it is not applicable for the earlier resolution plans approved that is one. Number two is, we have disclosed about our association in the form of a joint venture with the Bhushan Power & Steel in our declarations at the time of submitting resolution plan to get qualified under Section 29A. Under Section 29A, if we are a related party to the promoter, then we will get disqualified, so it has been examined by the resolution professional through their independent consultants and then qualified JSW Steel as an eligible bidder under Section 29A. If you read 29A and 32, which is now introduced in the ordinance, both are similar in nature, so the JSW Steel in our point of view, as per the definition, is not an associate of Bhushan Power & Steel nor Bhushan Power & Steel is an associate of JSW Steel either as per accounting standards or as per Companies Act or in any other manner that can be interpreted. Therefore, the courts anyhow have to take a view on this, so based on that, I think some arguments will be in the court and then courts will finally take a call.

Ritesh Shah: That is interesting. Sir, my second question is, on the balance sheet, how should one look at the impact of the Duferco trade finance deal that we had at the start of the year and in



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conjunction with net debt number and also in conjunction with the acceptances number that we gave?

Seshagiri Rao: Net debt includes the advance from Duferco. Therefore, it is a part of the debt, which we are showing, but in the balance sheet when we are showing, it may not come under borrowing, it will come as advance from customers, but for the purpose of clarity, it is a long-term advance we have included as a part of the net debt while giving the numbers to all of you and also, the ratios have been calculated considering advance from Duferco as a debt.

Ritesh Shah: Sir, what would this quantum be?

Seshagiri Rao: Quantum was \$700 million when we took and every month, it is getting adjusted because we have been doing exports starting from April 2019, so it is getting adjusted since then, so over a period of 5 years, it will get fully paid.

Ritesh Shah: Over 5 years?

Seshagiri Rao: Yes.

Ritesh Shah: I have more questions, I will join back in the queue.

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

Sumangal N: Good evening, Sir. In terms of steel spreads, if you could guide factoring the price increases and coking coal cost reduction and iron ore cost increase, how are spreads expected to move in 4Q versus 3Q?

Seshagiri Rao: We do not guide on spreads, but as I mentioned to you, there will be a \$10 reduction considering the current index of coking coal, \$10 reduction in the overall prices in this quarter. As far as iron ore is concerned, there was some reduction in the month of December, after that, there is an increase in the month of January, but we do not expect further increases in the iron ore prices and also, at the same time, we have started the new captive iron ore mine, so more production will come from the captive sources. We do not expect any further increase in the iron ore prices, excepting whatever has already happened and the impact of even increase in the month of January will not be for the full quarter, we continue to buy in the auctions. We cover almost 1-1.5-month iron ore. Therefore, the impact even if it comes, it is for the part of the quarter, it is not for the full quarter. As



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regards to the prices, which I just mentioned to you in November and December, there is an increase in price, that impact will come for the full quarter. January, again, we increased the price, now if I look at landed cost of imports, vis-à-vis the domestic prices, domestic prices are at a discount, at least close to, in my view, 5% to 6%, so there is a scope for revision in price in the domestic market in February and March, considering the buoyancy in the overall demand.

Sumangal N: So, average Q3 prices versus the spot prices will be at least, say Rs.3000 to Rs.3500 higher, is that the right assessment?

Seshagiri Rao: No, prices definitely will be higher, but we do not want to say how much quantum it is, but the prices are higher than the average.

Sumangal N: Understood. Sir, second question, with respect to iron ore mines from 4.5, next year what could be captive iron ore production and what is the peak, is it around 8 million, 9 million tonnes?

Seshagiri Rao: This 4.5 million (from 6 mines), another 3 additional mines, which we have got will get operationalized in the next financial year, so all the 9 mines operate at full capacity, then the available iron ore will be close to 7 million tonnes, but we are also looking at expanding capacity of the 6 mines, which were operationalized in this year. We will be able to give a correct number, but at least it will be more than 4.5 million to 7 million tonnes. This is a range, which would be there in the next year.

Sumangal N: Just one last clarification with respect to Bhushan Power, we are still maintaining that we will acquire it as a 50% ownership and get a JV partner, that stays, right?

Seshagiri Rao: We never said 50% or 40%. What we have said is consolidation would not happen in the books of JSW Steel, so if at all we have to complete this transaction, based on a favorable judgment, approving our resolution plan, we will complete the transaction, but we will reiterate again that there would not be consolidation of BPSL until turnaround happens into JSW Steel books.

Sumangal N: Understood. Alright, thank you, Sir and all the best.

Moderator: Thank you. The next question is from the line of Indrajeet Agarwal from Goldman Sachs. Please go ahead.



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Indrajeet Agarwal: Good evening, thanks for the opportunity. Two questions from my side, first, on the industry demand-supply balance for next year in India, you talked about 5% kind of demand growths on 100 million tonne capacity on annual demand that indicates about 5 million tonne additional demand, with that in mind, you have 5 million tonne capacity coming up, we have additional sales from Steel Authority, Essar has now changed hands, so likely a capacity utilization increase over there, and with that, JSPL as well, so how do you see the overall industry utilization moving next year and will that impact the attractiveness of the domestic market?

Jayant Acharya: So next year, if you look at the total overall demand scenario, we do expect it to be better than this year, so this year, we should end at 4% and next year, it should be between 5% to 6%. Even if you take somewhere in between, you will see an incremental demand between 5 million and 6 million tonnes in India. Now, if you were to look at capacity increases in flat steel, there may be some capacities, which will kick in, in this year, including our Dolvi project, but just to explain about our Dolvi project, out of our 4.5 million to 5 million tonnes with this project, which will give in terms of hot rolled coil, about 50% of that is linked backwards to our downstream operations, so that will get consumed within house. The balance quantity will be incrementally available for the market. We are also in discussions, as you are aware for acquisitions of some of the downstream assets, like Asian color, which would also additionally help consume some part of this in the downstream operations, so from an incremental impact, given that the demand increase is coming in, this capacity over the year will not be difficult because anyway it is going to be starting, let us say, somewhere, as we said, with a delay of 3 to 6 months for part of the year. So that is as far as Dolvi is concerned. The other competing mill, which may come into the market, may be SAIL or NMDC, but that will be available maybe partly again for the next year, but between both, the capacity should be enough, I think, to meet the domestic demand considering the fact that the import levels of about 200000 every month has now come down substantially, so I do not, per se see a problem in terms of the consumption of this unit next year.

Indrajeet Agarwal: Sure. Just on an earlier question on auto sheet price decline, have you seen the full impact of that in this quarter or there could be some slipover for the March quarter and June quarter as well?

Jayant Acharya: No, the auto pricing is done on basically the drop of the previous half gets factored into the next half pricing, so the H2 pricing of this year has already factored the drops in the first half. In the second half of this year, October onwards, as we have said, things have



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bottomed out, prices are improving, so therefore, the impact of the increase in prices in H2 will come in auto contracts in the next year, starting April.

Indrajeet Agarwal: Sure, that is helpful. One last, if I may slip on, did you mention some kind of time line for Bhushan Power, I just missed that, do you expect that to be resolved whatever way by February, is that what you mentioned?

Seshagiri Rao: No, it depends when it will get cleared. The way NCLAT has responded yesterday, they wanted to complete the hearings as early as possible, so expecting that the judgment will come the way we submitted the resolution plan, approving our resolution plan. We will complete within 30 days from that date. It could be in this quarter, probably it may slip to next quarter, we have to see when it gets approved.

Indrajeet Agarwal: That is all from my side. Thank you and all the best.

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

Pinakin Parekh: Thank you very much Sir. My first question is, if I look at the company's export volumes for the last 2 quarters, they have averaged around 1 million tonnes per quarter and if you go back to third quarter of FY2019, it was 0.3 million tonnes, now at this point of end of January, when you are making your business plans for the March-June quarters, do you see this export volume sustaining at 1 million tonnes per quarter from the company or you think that this should drop off over this quarter and next quarter?

Jayant Acharya: Export, as you are aware is a number, which is balancing in nature, but we maintain our exports at a certain level so that we are present in the market. In the Q4, given the current market situation, we do expect that the exports will get moderated a bit. However, with the international prices having gone up, we will take a view vis-à-vis the price available in this quarter in the domestic market and international market and then calibrate our tonnages accordingly for exports in this quarter. As far as next year is concerned, I think we are in the process of making our business plans, and closer to time, I think we will be able to give you more flavor on that.

Pinakin Parekh: Sure. Sir, my second question is on Dolvi, we are talking about a 3 to 6 months delay and assuming gets commissioned between June and September, from there, I assume there would be a period of ramping up the blast furnace and stabilizing the plants, so to that extent, would there be a material amount of commercial steel sales volumes available in FY2021 from Dolvi?



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Seshagiri Rao: Yes, definitely. It will be sizable over existing capacity, so it is total 5 million tonnes, even assuming it is available for 6 months including first 6 months, we will use it for commissioning and for ramping up, so there is 6 months definitely will be available in our view.

Pinakin Parekh: And in your view, for that time period, the availability should be at a high degree of utilization on the nameplate capacity?

Seshagiri Rao: Yes.

Pinakin Parekh: Understood. Thank you very much, Sir.

Moderator: Thank you. The next question is from the line of Bhavin Chedda from Enam Holdings. Please go ahead.

Bhavin Chedda: Good evening Sir. What was the EBITDA number at Amba River Coke and JSW Salav for the quarter and 9 months, the rough numbers?

Seshagiri Rao: JSW Coated for the quarter was 134 Crores, JSW Industrial Gases, 13.7 Crores, ARCL, 115 Crores.

Bhavin Chedda: And Salav?

Seshagiri Rao: Salav was not operating in the last quarter, and it also got merged retrospectively.

Bhavin Chedda: Sorry, it got merged retrospectively into what?

Seshagiri Rao: It got merged into JSW Steel retrospectively.

Bhavin Chedda: Okay. So Salav numbers will not come as a separate subsidiary and all that, we have to just look at this Industrial Gases and the Amba River over and above the other overseas subsidiary and coated and plate mill, what have you?

Seshagiri Rao: Correct.

Bhavin Chedda: Right and Sir, what was JSW Steel inventory as on December 31, 2019, in tonnage terms?

Seshagiri Rao: It is 10.78.



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- Bhavin Chedda:** Lakhs?
- Seshagiri Rao:** Yes, 10.78 lakhs.
- Bhavin Chedda:** Roughly, 1 million tonne?
- Seshagiri Rao:** Yes.
- Bhavin Chedda:** Sir, overseas number, you said that Europe would be no losses, but losses at US, so even Plate and Pipe mill because US is again divided into Plate and Pipe mill operations separately and Acero, Ohio operations are separate, so both will still continue into loses or Plate and Pipe mill will still break even in Q4?
- Seshagiri Rao:** Plate and Pipe mill losses will come down quite significantly from the number of \$12.6 million, which was declared in the Q3. It will come down quite significantly, but it would not be EBITDA positive in plate mill in this quarter, Q4. Similarly, in the Ohio, it will come down over Q3.
- Bhavin Chedda:** Sir, my last question was, our other operating income has been coming down on Y-o-Y basis in the quarter and first 9 months, which is largely VAT credit and Dolvi and all that, has some rate adjustments happened because I thought under new GST regime, rate was coming higher than the earlier regime, so why then when the volumes are similar or higher, our other operating number has been coming down?
- Seshagiri Rao:** No, this incentive, which was available up to 3.3 million tonne at Dolvi, expired in the month of August 2019, so that is not available.
- Bhavin Chedda:** On the entire 3.3 million?
- Seshagiri Rao:** Correct. So that expired, that period is gone, so whatever incentive now we will get only on the incremental production over 3.3 million.
- Bhavin Chedda:** So we are saying that on Dolvi, which is having a run rate of 4.5 million to 5 million, on 3.3 million we are not getting incentives now?
- Seshagiri Rao:** Right.
- Bhavin Chedda:** So, this number of 318 Crores odd, is this on Karnataka 2 million tonne, and 1 million, 1.5 million tonne of Dolvi?



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- Seshagiri Rao:** Correct.
- Bhavin Chedda:** Thanks a lot, Sir.
- Moderator:** Thank you. The next question is from the line of Prashant Kumar from CGS CIMB. Please go ahead.
- Prashant Kumar:** Sir, congratulations for a good result in one of the most challenging quarters since 2016. Sir, I have one question on the trade side, India and US recently agreed to amicably settle a trade dispute, which WTO ruled against the US, so I wanted to know your view on this and can this be seen as a precursor to any mini trade deal that you can expect in February when Mr. Trump comes to India to meet the Honorable Prime Minister?
- Seshagiri Rao:** Can you kindly elaborate what you are talking about, trade deal, you are talking about China-US trade deal or something else?
- Prashant Kumar:** No, India and US, there was a trade dispute on the hot rolled coil products, and WTO ruled against the US on this dispute, which India has been representing since 2016 to be enforced, I think recently, we are coming to hear that there is an amicable settlement between India and US, so did you get to hear on this and what is your view?
- Jayant Acharya:** India had represented about this antidumping to the WTO sometime back, not recently and that was a few years back, that was in favor of India, but it had not been given effect in US with respect to any correction on the antidumping duties. We have not heard of any latest change accepting or giving a relaxation on that duty.
- Seshagiri Rao:** We do not expect a big thing going to happen when Mr. Trump visits India particularly on this issue.
- Prashant Kumar:** Sure, Sir. Just coming to one more on the demand side, India level demand, if assuming the 6.5 lakh Crores incremental infra spend actually takes place next year and assuming a steel intensity of, let us say, 8% or 10%, we can think there is probably 50000 Crores more worth steel to be consumed, so that itself comes to some 8 million tonnes and assuming other sectors also grow, other segments, so are we in for a huge surprise in demand next year, what is your view?
- Jayant Acharya:** If you were to really look at various projects, the way they are coming up or they are announced, the amount of steel, which is going to be consumed in the country is going to be quite large, assuming that funding of all these projects happen in time and they start picking



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up on the ground in the next few months, so from that perspective, we do see upside, but substantial portion of this will be rebars, so last year rather the year going by, we expect somewhere in the vicinity of 27 million, 28 million tonnes of rebar being consumed. I think that will see an upside with the new projects coming in, the metros, the bullet train now starting off, I think the tender is due on 31st, smart cities, hospitals, various new projects are on ground, so we do see an upside to this number. Huge surprise or not, I think the funding and the timing will tell us. On the flat side also, we see some investments in oil and gas, they are trying to build that gas grid and the water grid. We see an effective demand of probably close to 3 million, 3.5 million tonne over the next 2 years, that will also kick in, so yes, significantly increased demand from the infrastructure side provided the timely implementation happens on the ground.

Prashant Kumar: Sure, Sir. If I may, one last question, on the Acero Junction asset, as Mr. Rao has already said next year, we might not be having some great numbers there, but on a long time normalized EBITDA per tonne, is \$100 per tonne a good number to build in on a long-term basis, assuming the steel market is in the normalized profitability and condition in the US?

Seshagiri Rao: No, we do not like to guide on EBITDA because it depends on so many factors, particularly in the steel sector, it is very difficult to visualize what would be the steel price 1 year ahead or 1.5 years ahead, similarly cost side. We can only look at volumes. Our effort in Ohio is to turn around and achieve the volumes and then automatically it becomes profitable.

Prashant Kumar: Great, Sir. Thank you so much.

Moderator: Thank you. The next question is from the line of Rajesh Lachani from HSBC. Please go ahead.

Rajesh Lachani: Thanks for the opportunity. Sir, my question is with regards to net debt, so we have slightly reduced our net debt; however, if I do the math, we had 2400 Crores of EBITDA, but we had a capex of 2800 Crores and interest of close to 1000 Crores, so just wanted to understand what was the release of working capital in this quarter?

Seshagiri Rao: In fact that number is known to you, I understood is that 13.23 lakh tonnes of inventory, which we had, it has come down to 10.78, so therefore, the inventory working capital locked up in inventory is coming back into the system.

Rajesh Lachani: So entire reduction net debt is due to working capital change mostly?



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Seshagiri Rao: Not reduction in debt, if you see the overall requirement versus no increase in the debt or very marginal reduction in the increase is on an account of unwinding of inventory.

Rajesh Lachani: Sir, just also wanted to understand this, India crude steel production is down in the fiscal year 2020, 9 months fiscal year 2020, and we also became a net exporter of steel during this year, so I just want to understand how is the consumption still coming as 3.5% higher versus previous year, so if you can throw some light on that?

Seshagiri Rao: So crude steel production for the 9 months is 0.1%. It is same as that of last year, then as far as the imports are concerned, for the 9 months period, it is not that much drop, even though we are the net exporter, but if you add the reduction in the inventory because there is a huge amount of inventory, which was there as on April 1, 2019, so there is a reduction in the inventory, there is a reduction in the imports, there is more exports, production remaining more or less at the same level, so consumption number is a derivative.

Rajesh Lachani: Understood. Thanks a lot, Sir. That is from my side.

Moderator: Thank you very much. We will be able to take one last question. We will take the last question from the line of Sagar Gandhi from Future Generali Life Insurance. Please go ahead.

Sagar Gandhi: Sir, you highlighted that your recently acquired company, Monnet Ispat is going to start plant in probably end of January or beginning of February, what will be the capacity there and how do you see that panning out over the next 1 year?

Seshagiri Rao: The capacity is around 1 million tonnes, so in that we have a pellet plant of 2.4 million tonne capacity, which is operating almost close to capacity. Similarly, we have a DRI plant, which is also operating at full capacity of 50,000 tonnes a month, then what we are starting now is the blast furnace and 2 melt shops, one of them is getting commissioned and there is a TMT mill of 0.5 million tonne that is getting commissioned, so on commissioning of this Phase 1, which we call it as a Phase 1, the capacity will be in the range of 7 lakh to 8 lakh tonnes and when the Phase 2 get commissioned, that is a plate mill and the second part of SMS, second SMS, if we commission, then 1 million to 1.2 million tonne will reach, so what we are getting it done now is the first phase.

Sagar Gandhi: So Sir, how soon you expect the second phase also to start and will that require incremental commitments in terms of finance or capex?



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Seshagiri Rao: Capex is not very big, it is 110 Crores or 120 Crores, which is required to be spent on the Phase 2 for getting it commissioned, so what we wish to do is in Phase 1, we would like to start and then ramp up the capacity, then take up the phase 2.

Sagar Gandhi: And all this should happen within next 1, 1.5 year, is that a reasonable assumption?

Seshagiri Rao: Yes.

Sagar Gandhi: Thank you so much, Sir.

Moderator: Thank you. We will be able to take one more question. We will take the last question from the line of Vivek Ramakrishnan from DSP MF. Please go ahead.

Vivek Ramakrishnan: Thank you for the last question and excellent quarter, strong cash flow from operations, it looks. Sir, I just want to know what are the major debt repayments in the balance 2 months of the year and in FY2021, Sir?

Seshagiri Rao: 3000 Crores in the Q4 together, including January, and 7000 Crores will be next year.

Moderator: Thank you. We will take that as the last question. I would now like to hand the conference back to the management team for closing comments.

Seshagiri Rao: Thank you very much. So we expect Q4 will be much better than Q3 in terms of volumes, in terms of NSR and lesser-cost pressures in the Q4. We are also working on to reduce the delays that have happened in commissioning of projects. We would like to commission starting from March over a period of 6 months' time, commissioning and also ramp up, this, we will do it. With that, I think next year we will have incremental capacity of 5 million tonne for almost 6 months available to us fully. We are also commissioning our downstream. This also will get completed in the next few months. With that, I think FY2021; we will be able to give a clear picture about the total production and sales volumes when we meet in the month of May. Thank you very much.

Moderator: Thank you very much. On behalf of SBICAP Securities Limited, that concludes this conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.