



“JSW Steel Limited Q1 FY23 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the Q1 FY '23 Earnings Conference Call of JSW Steel Limited. As a reminder, all participant lines will be in the listen only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator pressing “*” then “0” on your touchtone phone. Please note that this conference is now being recorded. I now hand the conference over to Mr. Ashwin Bajaj, Group Head of Investor Relations at JSW Steel Limited. Please go ahead, Sir.

Ashwin Bajaj: Yes. Thank you, operator. Good evening, ladies and gentlemen. It's a pleasure to welcome you to JSW Steel's earnings call for Q1 FY '23.

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, Chief Financial Officer; and Mr. G.S. Rathore, Chief Operating Officer.

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

Seshagiri Rao: Good evening to everybody. This quarter, which has gone by was one of the toughest and challenging quarter, particularly on the back of Russian-Ukrainian war, which has brought in extreme uncertainty and extreme volatility in the market, especially for commodity markets. So, this has given a major shock in the steel market. Total pattern of global trade has changed and the largest ever increase in energy prices and all got further aggravated with the sanctions on Russia and trade restrictions, labor shortages, logistic bottlenecks, over and above to contain inflation, the contractionary fiscal and monetary policies that are being followed by Countries and Central Banks. So, this has caused a lot of uncertainty and volatility in the markets.

To contain inflation has been the major objective of several countries and the government, they have changed the policies, they have changed the priorities. The Indian government, in line with that, have imposed export duty also in the month of May of 15% on export of steel. So, all this together was a challenging quarter. But what is interesting here, if I really see the whole steel industry, the overall steel production in my view has increased quarter-on-quarter.

Generally, the impression is year-on-year the steel production for the first 6 months of the year have fallen, but which is not really true. The largest producer and consumer of steel that is China, quarter-on-quarter, their steel production went up by 16.5%. They have produced 284 million tonnes as against 243 million tonnes, which is 40 million tonnes more steel China has produced. What did they do? Their exports went up by 54% in the Q2 over Q1. They exported 20 million tonnes of steel, adding a 13 million tonnes in the Q1. So, all this if you see country-by-country overall trade flows, there is more production, more exports, falling demand and reducing imports. So, this has caused a fall in the steel prices. There is a fall of over 20% in the global steel prices, maybe in Europe and U.S., it is much more. So, this is the context in which we have delivered the results from JSW.

One more point which we observed as far as the Indian steel industry is concerned completely in contrast to what I just explained in the global markets, when Chinese steel production sequentially went up, Indian steel production sequentially came down, but year-on-year it increased. So, this is majorly in my view attributable to the imposition of export duty, which has brought in a big psychological factor in the user industry.

With that if I see as far as JSW Steel is concerned, we have produced 5 million tonnes of crude steel on standalone basis. We have preponed certain shutdowns, otherwise, we could have produced at least 0.5 to 0.7 million tonnes more production in the last quarter. So, our Indian operations including Bhushan Power and Steel, we produced 5.62 million tonnes. Our capacity utilization with Bhushan Power and Steel was 89%, as against 103% in the Q4. Our capacity utilization in the existing operations other than Dolvi expansions, if you look at it also came down to 93% from 98% in the Q4. So, therefore, we have moderated production, otherwise production could have been higher.

If I see the sales are concerned because of export duty imposition, when the steel exports from India came down by 26%, even our exports in the last quarter came down by 35%. We could do 883,000 tonnes of exports as against 1.35 million tonnes in the Q4 of last year. So, exports

have fallen by 20% of the total volume of sales. Consolidated sales including Bhushan Power was 4.33 million tonnes.

The blended sales realizations because of price hikes that have happened in the month of April, overall blended basis, it went up by 9% in the quarter, whereas cost pressures were very high. As we guided in the last call, that the coking coal impact would be there in this quarter to the extent of \$125 per tonne. We have seen \$113 increase in the coking coal price. The Iron ore fall in prices have not fully reflected in the last quarter. So, all together, the cost went up by 21%. That's why on a standalone basis, the EBITDA per tonne was Rs8,311 per tonne. That is 10.8%.

The coated business also has not done well, because of huge amount of inventory losses in the company. Their export could not take place, both together volumes also did not do well. So, both together there was a negative EBITDA as far as coated business is concerned. Bhushan Power and Steel made an EBITDA of Rs. 698 crores, Rs. 14,541 EBITDA per tonne. So, the domestic subsidiaries net contributed including Bhushan Power and Steel Rs. 743 crores. Our U.S. operations US\$34.2 million, both Ohio and Baytown together. Italy was positive EUR 4 million. So, overseas contributed Rs. 276 crores. So, the EBITDA on a consolidated basis, Rs. 4,309 crores. EBITDA per tonne on a consolidated basis is Rs. 9,601. But there are 4 one-off items, which are very, very, important for us to understand.

These one-off items are one is the foreign exchange rate fluctuation. We have been explaining our hedging policies that we will hedge 100% on the revenue account. But on the capital account whatever instalments that are falling due for the next 12 months we hedge, balance is unhedged. Rupee depreciated in the last quarter by over 4%. So, we have to translate our outstanding foreign currency loans at the exchange rate prevailing as on June 30, '22. So, the impact on that of this foreign exchange translation on profit and loss account were Rs. 747 crores on a consolidated basis.

The second item of one-off item is NRV provisions. When the steel and input prices started falling, the inventories had to be revalued on net realizable value basis. So, that impact has come close to Rs. 813 crores at the end in the last quarter. Imposition of export duty has put additional burden of Rs. 242 crores on exports, which we have made. In the U.S. during Covid time, U.S. government has given to medium enterprises grants. Our subsidiaries got a grant of \$10 million. Subsequently, on review they said, it is not a corporation located in the U.S., it is a foreign corporation because 100% is owned by parent, outside the U.S. So, they canceled the grants. So, that \$10 million, approximately Rs. 80 crores probably made a provision. All this together, the Rs. 1,880 crores, which will translate to Rs. 4,342 per tonne.

So, if I take Rs. 9,601 reported EBITDA and this Rs. 4,342 if you make adjustment, then the total EBITDA on a consolidated basis is Rs. 13,943 per tonne. Similar adjustments we will have to do in standalone basis. Standalone basis, once you make adjustment, the EBITDA per ton is Rs. 12,086, as against Rs. 8,300 that is reported. Considering this, the profit after tax on a consolidated basis was Rs. 839 crores. Our net debt has increased by Rs. 10,571 crores. So, this was at Rs. 67,221 crores. This Rs. 10,500 crores increase in the debt is majorly on account of inventory accretion. The investment in the working capital was Rs. 7,874 crores.

So, as I mentioned, 1 million tonne of accretion to the inventory in the last quarter, we produced more despite moderation as exports, we could not do. On domestic, there was a weakness in the apparent consumption. Both together, we had to invest in the inventories here. So, that amount was Rs. 7,874 crores. Foreign exchange translation increased the debt by Rs. 1,400 crores, so balance is capital expenditure related increase. So, this Rs. 10,500 crores, a significant portion will be able to bring back the cash flow on unwinding of inventory in the balance 3 quarters. With that, our debt-to-equity was 0.98x, our debt-to-EBITDA was 2.03x. Our capital expenditures, cash flow spent were Rs. 3,702 crores in the last quarter. Our revenue acceptances were \$2.7 billion. Our capital expenditure acceptances were \$13 million.

So, as far as projects are concerned, we have reviewed the projects. We have given the guidance of Rs. 20,000 crores CAPEX initially. We have not slashed any of the CAPEX on the expansion projects of 7.5 million tonne at Vijayanagar, and also the expansion at Bhushan Power and Steel to 5 million tonnes. Those are untouched. Any other capital expenditure, special projects or any discretionary CAPEX, that we have reviewed. We thought we should bring down the discretionary and special projects CAPEX until situation improves. So, we

have moderated our CAPEX by Rs. 5,000 crores in this year from Rs. 20,000 crores to Rs. 15,000 crores.

So, with that, we will take questions if anything is there. Thank you.

Moderator: We will now begin the question and answer session. Our first question comes from the line of Amit Dixit with Edelweiss. Please go ahead.

Amit Dixit: I have got 2 questions. The first one is essentially on your BPSL realisation. So, if I compare BPSL realization with the standalone realization, there is lot of difference between the two. In fact, the blended realization for BPSL is up like Rs. 20,000 per tonne in this quarter. So, just wanted to understand the key drivers of the same.

Seshagiri Rao: The BPSL, there is a pig iron sale. So, the profit on pig iron if you adjusted in the Rs. 698 crores and then calculate the EBITDA pertaining to steel operation, it comes down to Rs. 11,000 per tonne. So, this Rs. 11,000 versus Rs. 8,300 standalone basis of JSW Steel if you compare, the iron ore is cheaper in the case of BPSL compared to JSW Steel. These are the two main reasons why we find apparently the EBITDA of BPSL is higher.

Amit Dixit: The second question is essentially on the cost guidance for this quarter, Q2. What kind of coking coal reduction and iron ore reduction per tonne of a steel do you see?

Jayant Acharya: So, coking coal, we are likely to see a reduction in the range of \$50 to \$60 per tonne going from quarter 1 to quarter 2. Iron ore, the reductions, which have happened in the market have not been reflected fully. So, part of that reflection will come in the quarter 2. And given the fact that international prices are moderating further on iron ore, we do expect some moderation going ahead in this quarter.

Amit Dixit: Is it possible to quantify the iron ore reduction as you have done for coking coal?

Jayant Acharya: Iron ore, different areas different locations, we will have a different number because based on the Fe, so it's difficult to quantify a number.

Moderator: Our next question comes from the line of Pinakin Parekh with JPMorgan. Please go ahead.

Pinakin Parekh: Sir, my first question is, I'm trying to understand exports. At this point of time given where the export duty is and given where the export realizations are, would the company be exporting any steel at this point of time?

Jayant Acharya: Yes. We are exporting steel basically to certain locations and certain products, but the export volumes are far lower than our normal volumes. Naturally given the fact that the export duty makes it totally unviable. And secondly, the general moderation in the global demand as well.

Pinakin Parekh: Sir, my second question is given, if the export duty is not removed in the course of the year, would it be fair to say that the volume guidance on sales given for FY '23 would see downside risk?

Jayant Acharya: So, we do not expect the export duty to continue for long. This was a temporary measure to contain inflation. In the inflation numbers, if you see, while it is not fully translated yet, the component of steel price in inflation has fast gone down. So, we do expect moderation going forward or removal going forward. So, we see this as purely temporary and maybe in H2, the opportunity to export will come back.

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

Vishal Chandak: Sir, just following up on the iron ore. Iron ore, generally the lag in purchase and consumption is about 15 days compared to about 2 months for coking coal. So, I would presume that there would be a fair amount of visibility on the iron ore pricing, given the fact that almost everything is localized. So, could you just give us a sense of how much lower was it in Q1 versus Q4? And what kind of ballpark number it would be probably in the next quarter?

Seshagiri Rao: Vishal, here in the case of iron ore is concerned, we have captive supply and also we buy in the market. We buy in the market, I agree with you. But in the case of our captive supply, 52% of the total consumption of iron ore is now from captive in the quarter 1. So, in this case what is happening is the premium which we have to pay on the auction mines to the Government is based on last declared IBM price. IBM, there is a lag of 2 months in declaring the price.

Number 2 is, if you compare the IBM prices, vis-a-vis the market prices, IBM prices are not getting adjusted in line with the market prices. There is an anomaly. That is why we are hesitant to give the view on what would be the iron ore price because as on date, IBM declared for April. May, June price not yet declared. So, there is already 2.5 months lag as on date. So, whatever we consume, whatever we dispatch in this month, we have to pay premium based on April. As and when IBM declares the price, whether premium will get adjusted like royalty, there is ambiguity in all. So, therefore, the dispute which is going on even on that. That is why the iron ore price we are hesitant to give, how much it could be the impact.

Vishal Chandak: That is absolutely clear and thank you very much for this elaborate answer. And my second question was with respect to the overseas operations. Do we foresee in the near term to close down European operations at least given the fact that there have been quite a number of challenges since we have acquired them?

Jayant Acharya: No. So, in the last quarter, if you've seen the European operations yielded positive EBITDA. The rail orders from RFI, which the pricing also got clarified. So, therefore, we were able to get a positive EBITDA there. Going forward, we are expecting that the rail orders from the Italian Rail will be forthcoming. With that we expect to maintain a positive kind of an EBITDA going forward. While we are looking, we may continue to look for opportunities maybe to partly divest the assets in case there is a possibility or an economic sensible possibility to do so, but we may continue to hold the rail mill in the asset.

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

Indrajit Agarwal: I just have 1 question. So, you also highlighted downward pressure on global iron ore prices, and we have seen global steel prices now hovering around \$600 per tonne. Chinese coking coal prices are now much lower than maybe Australian or coking coal prices have softened as well. So, with that light, how do you see global prices as we head into seasonal weakness in China? And do you see as a result, we could start seeing some bit of imports coming back into the Indian market.

Jayant Acharya: So, yes, we have seen some import into India from Russian sources, not as much from the Chinese yet, although their exports have been elevated. But the Russian Ruble being now far stronger, we see a reluctance from the Russians to offer that kind of a competitive pricing going forward. On the Chinese side, while we export volume because of Covid restrictions in China, the exports have also increased, but their costs are elevated. The \$600 which you are talking about are spot deals, which are being done by traders, which are offloading stocks to de-risk their working capital. It is not something, which is being offered by primary mills, since the cost doesn't support this price.

So, my sense is that given the current cost structure, there is not much room for prices to fall further. The prices are likely to be range bound. There is a feeling that by and large situation has bottomed out. And therefore, we do see some buying coming back. On top of that in certain global markets, as you may have read the print as well, there are shutdown of blast furnaces and moderation in production, particularly in Europe. And that also is leading to a slightly better sentiment with respect to global buying.

Indrajit Agarwal: With that note, how are the current NSRs in India versus first quarter average? And any outlook you can provide for the following two quarters and in our India operations?

Jayant Acharya: So, I would say that prices are by and large exit of June, I would say the price of July would be range bound. We don't see much variation going forward because the cost structure remains on a higher plane because of the raw material holding, which most steel producers have. So, price is range bound, but cost going forward will reduce. So, therefore by October all the inventory of high cost raw material will get consumed. And we see margin improvement from quarter 3 onwards.

- Moderator:** Our next question comes from the line of Abhijit Mitra with ICICI Securities. Please go ahead.
- Abhijit Mitra:** I have 2 questions. First of all, on the realization, the QoQ delta that we are seeing, how much of it is timing of sales? How much of it is auto contract driven increases? If you can sort of help us understand. And second is on the power cost. So, I think in the call yesterday of JSW Energy, they were saying that because of Russian coal imports, their costs have been pretty much controlled. So, just want to understand that, that same structure would have flown into our power cost as well, right? So, just to sort of clarify on this too.
- Jayant Acharya:** The second question first. No, I think we have clarified this last time probably as well that we have been buying coal from Russian sources, particularly certain metallurgical coals, which qualitatively have been required and continue to be required in our operations. So, we continue to source similar kind of coals because it's not possible to overnight replace those. That having said, I think the general price of coal if you have noticed except for thermal are generally on a softer trajectory, it's correcting downwards. That will reflect going forward in our books as well.
- The questions on NSR which you asked, I can only say that, yes, auto contracts partly are closed. Some of the long product contracts have just been closed. So, that gives an increase in quarter 1, but it's getting divided into 2 parts. So, there is an increase in quarter 1 and there is a decrease in quarter 2. So, just to give an example for long products, not that it holds for all producers as yet, but some of the major producers have given an increase of Rs. 9,000 in quarter 1 and a drop of Rs. 4,000 in quarter 2, which is in July-September. And quarter 1 pertains to April-June. So, we are still in discussion with some of the auto majors to close these numbers, some are already closed, some are in the process of getting closed.
- Abhijit Mitra:** My question on the coal side was more on power cost. I think on the thermal coal price. So, the increase in power cost that we have seen, will it sort of stabilize here or come off, how do you see it?
- Jayant Acharya:** It will moderate because we are using a mix of different coals as well, so the power cost will also moderate.
- Moderator:** Our next question comes from the line of Satyadeep Jain with Ambit Capital. Please go ahead.
- Satyadeep Jain:** First question is on CAPEX. I think recently you indicated increase in CAPEX in Vijayanagar. With the recent moderation in commodity inflation and stuff, is there a possibility of that being revised down or have you already placed in equipment order. And how do we budget for the next 3 years? How would you look at the CAPEX for the next 3 years after Rs.15,000 crores of CAPEX this year? That's the first question.
- Seshagiri Rao:** So, you have to look at little middle term when we are committing capital expenditure as per our strategic plan. So, India, we are very optimistic with regard to the overall building infrastructure and also other sectors of the economy either you take auto, or you take packaging industry, the renewable industry, appliances. They all have lot of big potential, whereas there are a very few players in India, who are capable of creating new capacity. So, that is why we are not changing our plans on the CAPEX for expanding our capacity by 7.5 million tonnes at Vijayanagar, nor expanding capacity at Bhushan Power & Steel to 5 million tonnes. So, they are on track. They already placed orders. Project work is in full swing at the site. Only what we have reduced the capital expenditure is relating to special projects and other discretionary projects. So, our view on the outlook or growth in steel demand in India, it remains intact.
- Satyadeep Jain:** So, what would be the CAPEX, you're looking at Rs. 15,000 crores this year. Are you still maintaining that Rs. 48,000 crores of CAPEX guidance as we sit here today for the next 3 years?
- Seshagiri Rao:** Only the Rs. 5,000 crores, we have put it on hold. So, Rs. 48,000 crores remain for the next 3 years. So, as and when situation improves, this Rs. 5,000 crores we will take a call.
- Satyadeep Jain:** Secondly, on the entire decarbonization CAPEX, you indicated I think Rs. 10,000 crores of CAPEX, that including the amount of renewable energy. What is the remaining CAPEX that you would expect to be incurred in the Rs. 10,000 crores? And is there opportunity to add

more WHRS in the existing units? I think in the upcoming plant, you are looking at WHRS. Is there potential to capture more of waste heat from CDQ and stuff in the existing plants that you have?

Seshagiri Rao:

No. We already have 2 plants using the coke oven gas and the other heat at Dolvi. That is 175MW 1 unit, just commissioned a few days back. There is another 60MW, there is one more plant, which will get commissioned by September. So, this 170MW plus 60MW is 230MW at Dolvi is majorly to use the heat and the gas that would come in the process. So, the way we are working as a part of decarbonization is, reducing carbon emission to replace our entire coal-based power plants with renewables. So, we are in the direction, this 958MW we have signed with JSW energy, 225MW already started. Balance will start in this financial year. Over and above that, we are also looking at seriously to commit for more renewable power in future and replace the existing fossil fuel-based power in addition to catching the heat and the gases that are there in the process to generate power.

Moderator:

Our next question comes from the line of Prashanth Kumar Kota with Dolat Capital.

Prashanth Kota:

Congrats for good results in a very, very challenging quarter, adjusted for one-off with the results are clearly not that bad. And sir, my question, it will, Jayant sir has just touched upon the topic of export duty and it may be removed, et cetera. But then there are some unanswered questions, sir, now that have been lingering in our minds. With 2 months that the export duty was imposed on and the restrictions were imposed on our sector, sir. But if we just look at the rationale and the logic, there are 4, 5 areas, which are really contrasting to the actual logic, which is not logical actually.

So, the first one is, sir, steel industry as a whole is very, very challenging industry and that's why the market as a whole also uses very low valuation. For example, if you see the gross block vs market cap, you get 1x versus various other sectors it's 10, 15, 20x. Sir, that is a very challenging state. And market is wise. The second one is sir, there are many sectors and hundreds of smaller and larger companies also, which sells branded products and when raw material prices increase, they increase the prices of the end product, but when the raw material prices decrease they don't commensurately decrease the prices, sir. Their prices lingered for a significant amount of time. It pinches the retail, sir.

Third one, sir. And there's some impressive management influences that probably other sectors are able to do well and we are not able to manage probably, sir, because you see recently on the oil and gas sector when there was a cess, et cetera, imposed, many market participants veterans came out and said this is a bad move, it'll spoil the impression of the country, et cetera. But when it came to steel, when the duties were imposed everyone said, yes, it's a good move, it's a good move, prices will decrease. So, even we are a private sector driven enterprise with private capital. So, why this anomaly. And in just 15 days crude prices fell by 5% - 10%, the cess was lower. Yes, agreed export duty and the cess are not similar in nature, one is based on production, one is based on just a restriction.

Ashwin Bajaj:

Prashanth, sorry to disturb. Can you please come to your question please?

Prashanth Kota:

Sure. Yes, sir, I'm finishing that. Sir, hence what do you see is, my view is that the rhythm lens used to evaluate the steel sector is not uniform and is not comparable to what is being used for other sectors, sir. So, with huge respect in regard to the honorable FM, et cetera and the government, why this step-motherly treatment with steel, sir?

Seshagiri Rao:

Prashanth, thank you very much for pointing out this. And as an industry, what is that we can do is to bring the facts to the attention of the government and seek their intervention to ensure that fairness is there. So, we as an industry through Indian Steel Association represented to the government. We appreciate the step of the government to impose export duty not only on steel and some other items they have put some restrictions with the noble objective of reining inflation. So, last time 2008 also they have done and they removed the duty within a short period of time. So, our view is, it is a very short-term measure. Government of India is watching. And they will take a positive call on this very shortly, that is what we feel. We have made enough representations to the government.

Prashanth Kota:

Sir, my second question is to Mr. Jayant Acharya. Sir, assuming the steel prices hold where they are, the domestic HRC, rebar and the export HRC, et cetera, and for the rest of the couple

of months in the quarter, the realization dip QoQ, what is best to expect, sir? Does it come to about Rs. 12,000, Rs. 13,000 or more or less, sir?

Jayant Acharya: The realization, sorry, come again?

Prashanth Kumar Kota: The realization dip between Q2 and Q1 assuming the steel prices hold at this level now where they are now, for example, Rs. 58,000, Rs. 59,000 HRC, rebar and 650 export, the realization decline QoQ. is Rs. 12,000, Rs. 13,000 a decent number to work with, sir?

Jayant Acharya: It will be difficult for us to quantify that. But I think directionally the quarter 1 to quarter 2, the prices will be lower because the price drops have happened between April to May, May to June. And as I said, June to July, it's only marginal change. So, therefore, yes, quarter 2 average will be certainly lower than quarter 1. But I will not be able to give you a number as to how much that will be, because it will also depend on a mix of things.

Moderator: Our next question comes from the line of Sumangal Nevatia with Kotak Securities.

Sumangal Nevatia: Sir, just 1 clarification. Sir, you said July NSR is very similar to June. Is it possible to share how July NSR with respect to 1Q as an average?

Jayant Acharya: We don't usually give NSR numbers. So, difficult to give you a number right now because today there are various moving parts. What we are trying to do, I can tell you is that we are trying to increase our domestic in the interim. So, what you will see more of domestic volume and less of export in the short term. Our focus is to see that our value-added steel focus continues. Our value-added sales continue to be promoted. We continue to look at our branded portfolio and concentrate on sales of that. So, that to some extent will reflect.

We also see good movement in the automotive as we said the automotive demand is quite positive. We see a good traction in underlying demand in most of the products and most of the sector. So, demand perspective, I think we are cautiously optimistic for this quarter. So, therefore the domestic parts in the channel inventory is very low. The domestic component of the sale will be able to make up some part of the loss in exports. And since the export prices are also internationally as we discussed have gone down, therefore, to some extent, it will offset on a mix basis, some of the drop, which has been there between quarter 1 and quarter 2. But I would be more cautious to say that, yes, volume part, we are more optimistic, margin part, I would say that the situation improvement we will see once the cost comes down from October onwards.

Sumangal Nevatia: Sir, my second question is respect to the coated business. Now the margin there has been quite volatile in the last many quarters up from Rs. 10,000 to now a lot and I believe this quarter, there will be some one-offs in that business as well. So, I mean from a value addition and from a long-term given the amount of value addition we have and the downstream units we have, I mean, what sort of mid-cycle margin one should assume in this division?

Jayant Acharya: The EBITDA impact on coated, which you see is primarily on account of NRV provision, which is basically on higher cost of inventory, which they are holding, which basically is a mark-to-market, which has been done. So, we feel that going forward coated margins also will improve, not to the levels, which we have seen last year because of higher level international price, but it would go back to maybe earlier numbers, which have been prevalent in the coated space.

Sumangal Nevatia: And one just last clarification. I mean what sort of inventory days do we have for the coking coal? And Mr. Rao explained that 2-month lag on the IBM price for iron ore premium. Is it a provisional payment where once the, say, for example, May, June, IBM price is updated, the payment is reversed or adjusted for future payments? Or is it a permanent payment and there is a permanent 2-month lag?

Seshagiri Rao: In our coking coal, we have around 60 days inventory. Then coming back to IBM question. In the case of royalty payments, the procedure is same. As and when dispatches happen, royalty is payable depending upon last declared IBM price. As and when IBM declares a price for the month of dispatch, there is a provision in the mining rules that it will get adjusted either upwards or downwards. Similar rule is not there in the case of premium. So, therefore there is

a gray area where some clarifications are being sought from the government. Hope they will clarify and things will be put to rest.

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

Ritesh Shah: Sir, 2 quick questions. Chinese exports have actually increased on a monthly basis, on a quarter-on-quarter. Sir, how do we see the trends over here? That's one. And secondly, any hopes of further stimulus or policy action from China, which can actually improve the sentiment?

Jayant Acharya: We were not able to hear the first question very clearly. The second question, I'll answer first, maybe you can repeat the first question. Second question, yes, China is providing - the government is providing stimulus to drive the economic activity efforts, especially post the real estate challenges, which they are facing and the Covid lockdowns which continue to be a challenge. So, we do see that some impact of that stimulus will be seen in the short term. As far as your first question is concerned, if you could kindly repeat that.

Ritesh Shah: Sir, I referred to the Chinese steel export volumes, which have actually bumped up. How do you see the trend over here? And also if you can give some flavor that you indicated that global steel trade patterns have actually changed?

Jayant Acharya: Yes. So, Chinese exports have moved up to close to 7.7 million tonnes in the last 2 months. But that is also primarily impact of the Covid lockdowns and therefore impact of consumption in the domestic market, manufacturing as well as real estate, which consumed a lot of the amount of steel. But going forward, if the Covid restrictions ease and the stimulus takes effect, we feel that the exports may moderate somewhat. But we'll have to watch that space because China remains unpredictable, so we'll have to watch and see how that thing moves.

Seshagiri Rao: Just to add to the point, if I just take the Chinese apparent consumption, in Q2, it was higher by 13% over Q1. In spite of that their exports went up. That means they produce more. 96 million tonnes they produced in the month of May. But there is a moderation in the month of June, already came down to 90 million tonnes. So, the expectation is, one is stimulus increasing the domestic demand. No. 2 is adjusting the steel production in line with the local demand instead of relying on exports. These 2 things together, I feel exports will get moderated from China.

Jayant Acharya: And they've also declared that they would like to maintain their production at the level of last year.

Seshagiri Rao: Correct.

Jayant Acharya: So, if you see that and the run rate required, it seems that the production will get moderated to 2.75 million per day from the 3 million plus levels, which are going on today.

Ritesh Shah: Sir, my second question is, we called out for spread expansion potentially into Q3. We also indicated the coking coal cost decline, which can happen in the next quarter. Sir, my question is basically, how should one look at local pricing factoring one is import-parity math. And secondly, would it be even fair to look at it on export-parity basis? Just trying to get some sense given we have called out for coking coal, how should one understand the local pricing?

Jayant Acharya: So, export-parity pricing, no, that usually doesn't get. The norm is basically based on import. But import, the depreciation of the rupee and the volatility in the general import is also making many customers hesitate to go too much into the international market. So, I would say import, you will have to use your numbers based on import plus a certain premium, which the domestic customers will be willing to pay.

Moderator: Our next question comes from the line of Alexandra Symeonidi with William Blair. Please go ahead.

Alexandra Symeonidi: I wanted to understand how you think of dividends this year given that you're facing higher costs and a bit of margin contraction as well?

- Seshagiri Rao:** See, we have already communicated our dividend policy. It is 15% to 20% of the consolidated net profit. As the Company has done extremely well last year, the Board has taken their decision for the approval of the shareholders which got approved, that is upper end of the range we declared last year 20%. This we have been consistently following. In the future, we will follow a similar policy, 15% to 20% of consolidated net profit.
- Alexandra Symeonidi:** So, this year, you plan to pay about 20% as well. Is it correct?
- Seshagiri Rao:** No. I'm not saying 20%, this is the range. 15% minimum, 20% is outer limit. Within that range, Board and shareholders will take a call. In the last year, it was 20%, but this year based on the profitability and the cash flow requirements, Board again will take a call in this range, 15% minimum, 20% is the highest.
- Moderator:** Our next question comes from the line of Bhavin Chheda with Enam Holdings. Please go ahead.
- Bhavin Chheda:** So, first question on overseas operations, this plate mill and pipe is seeing very good traction of EBITDA. Is that sustainable going forward?
- Jayant Acharya:** For the U.S. operations, the plate mill in Baytown is doing quite well. The demand pattern on the plate side is positive. While on the coil side you may have seen that the prices have corrected. And there has also been destocking, which has happened in the U.S. as well. Going forward, the gap between coil and plate, which exist today may correct. It may not remain at this level. Currently, the plate prices are at \$1,800-plus per short ton, whereas coil prices are in the range of 50% of that. So, there would be some correction on the plate, but the demand on the plate side, we feel is going to be positive, especially the transition to renewables calls for a lot of plate, especially the wind sector. Then the barge requirements, the infrastructure requirements also are consuming plates. And given the fact that Russia and Ukraine were plate exporters and that is out of the market, we feel a demand perspective plate will continue to do better than the coil in the U.S. operations.
- Bhavin Chheda:** Sir, second on particularly the power and fuel cost which has seen sharp escalation. So, I'm assuming majority of this is also an impact of the gas consumption cost at Dolvi operations because that I think gets accounted in power and fuel because I believe coking coal gets covered in the raw material head. So, this power and fuels spurt, is it driven by gas consumption cost?
- Seshagiri Rao:** Yes. That's correct.
- Bhavin Chheda:** And obviously that's the formula base. So, that is not coming down in the immediate term till the crude prices go down sharply.
- Seshagiri Rao:** So, it depends upon gas index. There are 2-3 gas indexes, we have contracts, some are linked to JKM and the balance are linked to Henry Hub. So, based on that, it goes on changing.
- Moderator:** Our next question comes from the line of Love Sharma from Lombard Odier Investment Managers. Please go ahead.
- Love Sharma:** Just wanted to understand a few things. So, given that the margins are likely to remain subdued currently for this quarter and the next quarter, in terms of the deleveraging, given the debt buildup has been quite significant due to the CAPEX and the growth the company has seen over the last few years, could you share any thoughts around how the cash flows could be managed to ensure there is some deleveraging, which you could see going forward?
- Seshagiri Rao:** If you see the total increase in debt, I tried to do the breakup, the reasons for increasing the debt. Out of Rs. 10,500 crores increase in the debt, Rs. 6,800 crores is only on account of inventory inflation. So, there is possible to bring back the cash flow into the business and reduce the debt during the financial year. Rs. 1,400 crores is only on account of exchange rate translation. Then Rs. 1,200 crores against Rs. 3,700 crores of CAPEX we have incurred is an incremental debt, which has come in as a part of this Rs. 10,500 crores. If you take that into account and considering this financial year's balance 9 months performance, we don't expect the debt to go up. By end of this financial year, it will be lower than what we're seeing by this quarter.

- Love Sharma:** Should we expect it should be stable to FY '22 number?
- Seshagiri Rao:** Our effort is not to increase FY '22. But this is an aberration, which has come in the last quarter. Our effort is to bring down the debt to FY '22 level.
- Love Sharma:** And can you tell me the acceptances, how much of the acceptances outstanding currently?
- Seshagiri Rao:** I think I have given the number already, anyhow, \$2.7 billion acceptances on revenue account and \$13 million on CAPEX.
- Moderator:** Our next question comes from the line of Amit Murarka with Axis Capital. Please go ahead.
- Amit Murarka:** So, first question is on exports, like my understanding is that there is about 1.5 to 2 months lag in executing the export order. So, is it fair to say that on the export side, whatever you do in Q2 at least this is where the hit will come of lower prices in Q1 has not seen the hit of lower prices in exports?
- Jayant Acharya:** The export orders, which have been there carry forward from April, May, I think have all got executed. Whatever orders are now being taken are orders taken in the month of June, let's say for execution in July. So, whatever volumes you will see of exports now will be current order based.
- Amit Murarka:** Yes. And also just on the duties you mentioned that is unviable now to export which is understandable, but semis are exempt from duties. So, like does it not make sense to try to do some semis exports to the extent you can?
- Jayant Acharya:** Yes. We are doing. We are doing some semis export in this quarter, some in the special grades and some of the semi exports to our facility in Italy as well.
- Moderator:** The next question comes from the line of Kamlesh Bagmar with Prabhudas Lilladher Limited. Please go ahead.
- Kamlesh Bagmar:** Sir, one question on the part of your one-offs, like how much was like export duty NRV provision and FX ratio fluctuations in standalone and subsidiary in the quarter?
- Seshagiri Rao:** NRV provision in standalone is Rs. 787 crores and in the consolidated Rs. 813 crores. FOREX fluctuation in the standalone account is Rs. 598 crores and the consolidation it is Rs. 747 crores. Export duty in the standalone is Rs. 136 crores and in the consolidated is Rs. 242 crores.
- Kamlesh Bagmar:** And second question on the part of steel prices like say the way the coking coal prices have fallen. So, does government want any assurances on the thought that over a period of time as the costs have come down, so the steel prices should also be at a level significantly lower than the current what they are trading at or ruling at?
- Jayant Acharya:** I think the way you have to see is that the steel prices have come down by more than 20% from the levels which it was, let's say beginning April. No. 2 is that the prices currently of steel prices, which you see are lower than what it was 1-year back. So, therefore we are saying that given the fact that the coking coal prices still are higher even after dropping vis-a-vis the last year, we feel that by and large steel prices will remain range bound. There is not too much scope for prices to further correct.
- Seshagiri Rao:** But the steel prices are delisted and I don't think it will be controlled. What Government of India has done, as I mentioned in my opening remarks, is only to contain inflation, they have put temporarily the duty. The duty will go away. I don't think Government will ask the companies how to fix the steel price.
- Moderator:** Our next question comes from the line of Anuj Singla with Bank of America. Please go ahead.
- Anuj Singla:** Sir, just one question on the mix between domestic and exports given the export duty, what are we targeting for second quarter? And what can we look forward to in case of export duty is

removed in the second half, which you are expecting? What can we see the whole mix for the full year?

Seshagiri Rao: So, the export proportion, if you see, it varied in our company from 12% to 30%. That is the range. So, last quarter, it was 20%. So, depending upon the pickup in the domestic market, which we expect, it will revive in this quarter. So, we will be in that range, 12% to 30%. So, we will not be able to say today, okay, we will do definitely 20%. We will not go down below 12%.

Anuj Singla: Okay. So, 12% is a minimum benchmark there, right?

Seshagiri Rao: Yes.

Anuj Singla: And the second question, sir, with regards to the maintenance shutdowns, which you have taken at the various facilities. Given the second quarter is typically a seasonally weak quarter, do you think a reversal of that is quite likely in this quarter or that can extend into the second half as well?

Seshagiri Rao: The JSW Ispat, the joint venture company, there it is continuing as on date, because the cost structure is still high. In the case of Bhushan Power & Steel, in fact the expansion to 3.5 million tonnes is getting completed in this quarter. Then at Vijayanagar and Dolvi, we will just watch the market and if something can be preponed, part of it, we will see if markets don't recover. Otherwise, there is no plan to prepone anything. We would like to continue the production as we had planned.

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

Abhiram Iyer: The first question that I had was on the revenue acceptances. Sir, this has increased significantly into Q1. Any particular reasons for this? And is this expected to correct because these are treated as sort of debt-like instruments by your external rating agencies. And the second question, just as a follow-up is, in case you're seeing FOREX sort of go up, especially considering a significant portion of your debt is in U.S. denominated bonds, is there any plan for the company to sort of repurchase or buyback some of these bonds in the market?

Seshagiri Rao: As far as acceptance increase is concerned, it is basically attributable for increase in coal price. Coal prices which used to be \$100, we bought at \$650 per tonne. So, therefore the acceptances have gone up. But now the coal prices got corrected, this will also come down in the next 6 months' time. As regards to buying of bond is concerned, we continue to watch the situation and then take a call on that. As on date, we have to work within the RBI guidelines. If you want to buy back the new loan, which we are raising, it should be lower than what you had earlier raised that is getting retired and the new loan should have a maturity longer than the loan getting retired. So, it will be very difficult to compare with these 2 conditions, therefore we have to watch the situation and then take a call.

Abhiram Iyer: And just, sorry, just as a follow-up on that revenue acceptances and you mentioned it. This will correct down as you mentioned within the next 6 months as coking coal goes from Rs. 650 to less than Rs. 400 that it is right now?

Seshagiri Rao: That's correct. Today, Rs. 230, it is not Rs. 400.

Moderator: Our next question comes from the line of Ashish Kejriwal with Centrum Broking. Please go ahead.

Ashish Kejriwal: Sir, 2 questions. One is about coking coal average price to be lower by \$50 to \$60 in Q2. Is it possible to share how much is the spot coking coal price versus quarter 1 average? How much lower?

Jayant Acharya: So, the quarter 1 average, as we said is about \$421 C&F India. The spot as Mr. Rao has just told you is today as we speak is \$230 for PLV FOB Australia.

Seshagiri Rao: But \$421 and \$230 are different, not comparable.

- Jayant Acharya:** They are not comparable, yes.
- Seshagiri Rao:** Because we continue to buy --
- Ashish Kejriwal:** Comparable numbers, is it possible to share?
- Jayant Acharya:** Sorry.
- Ashish Kejriwal:** The comparable numbers to \$421.
- Seshagiri Rao:** It is already given. If I say \$50 will be reduced, \$421 minus \$50.
- Jayant Acharya:** Yes. Correct. You take \$50 from \$421.
- Ashish Kejriwal:** No. \$50 you have talked about for second quarter average because of our lower spot one versus first quarter. How much it can be lower? Can it be lower by more than \$150 or how it is?
- Seshagiri Rao:** Just to clarify what we have said just whatever has gone into consumption in the Q1 was \$421 C&F. Whereas in the Q2, we are guiding that this cost will come down by \$50, that means \$421 minus \$50. Whatever we are buying now or in the next 2 months, that average cost will come as a consumption in the following quarter. The next time when we have the call, we will tell you that. Because it is very difficult for us in the next 2 months how the coking coal prices will move.
- Ashish Kejriwal:** The second question is what we have been hearing is that lots of cheap imports from Russia is coming and which is going to arrive at our port in September. So, considering that export duty is still levied and it's not profitable to export and cheap Russian imports are coming at much lower than what the current price is, what are our thought process for going forward for our domestic steel prices in September?
- Jayant Acharya:** Actually, the way you have to see the Russian cargoes is that there are 5 cargoes which were booked in India from Russia. They range from Rs. 60,000, Rs. 61,000 down to maybe Rs. 51,000 what you said, but that's not the average. The duty also would be applicable on imports of Russian arrivals. So, on an average basis, if you were to look at Rs. 55,000 and on top of that duty, you will not be too far from the domestic numbers.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question for today. And now I hand the conference back over to the management for closing comments.
- Seshagiri Rao:** So, what we can say at the end is that in the quarter 2, we feel that the domestic demand will recover. Already we are seeing increasing inquiries from various end-users. So, domestic volumes will be robust relative to what we have seen in the Q1. No. 2, is input prices are coming down either coking coal or the iron ore. So, that benefit also will come. The third point is whatever guidance we have given of 25 million tonnes of total steel production and 24 million tonnes of total sales on a consolidated basis, notwithstanding a slightly lower sale in the Q1, we will be able to achieve this guidance. So, with that, thank you very much.
- Ashwin Bajaj:** Thanks for joining us. Please feel free to reach out if you have any further questions. Thank you.
- Moderator:** Thank you. On behalf of JSW Steel Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.