

Jindal Saw Conference Call - Q3FY19 Earnings Conference Call
Hosted by Prabhudas Lilladher Pvt. Ltd.
Jan 25, 2019 at 11:00 am

– **Moderator**

- As a reminder all participant lines would be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need any assistance during the conference call please signal an operator by pressing star and 0 on your touch tone phone. Please note that this conference is now being recorded. I now hand the conference over to Mr. Kamlesh Bagmar, Senior Analyst, Prabhudas Lilladher Private Limited. Thank you, and over to you, Mr. Bagmar.

– **Mr. Kamlesh Bagmar - Prabhudas Lilladher Private Limited**

- Hi, everyone, on behalf of Prabhudas Lilladher I welcome you all to the Q3 FY'19 post earnings con call of Jindal Saw. Today we have with us Mr. Neeraj Kumar, Group CEO and Whole-time Director, Mr. Vinay Gupta, Global Head Treasury, Mr. Narendra Mantri, Head Commercial and CFO. Without much ado I hand over the call to Mr. Neeraj Kumar for the opening remarks and then we will open the floor for Q&A. Over to you, sir.

– **Mr. Neeraj Kumar – Group CEO & Whole-time Director, Jindal SAW Ltd.**

- Good morning, friends. It is a bright sunny morning in Delhi, we are enjoying the last bit of the winter. Yesterday we had our board meeting and we circulated the results sometime in the afternoon, so I presume that all of you would have got a chance to look at the results. And as has been requested by some of the stakeholders and participants, we will follow this now as a routine that we will always have the investor call on the subsequent day so that people get a chance to look at the results and analyse, and then we can have a call which can be a little more meaningful. So with this we will follow this tradition going forward every quarter. As you would have seen our results and today in the call I would recommend that we change the format a little bit. I would give you the opening remarks, talk about some of the strategic and some of the very important aspects and then I would let my colleagues walk you through the details of the numbers, their analysis, and finally then we could then come back and answer any of your questions and give you clarifications.

- **Mr. Neeraj Kumar – Group CEO & Whole-time Director, Jindal SAW Ltd.**

- We request all of you to please now notice the consistency that Jindal SAW has been able to achieve in the last three quarters. Now this has been a consistent effort towards this direction and we expect that our quarter on quarter performance going forward would be a lot more predictable within a reasonable band of fluctuations that can be expected based on a business environment. The second important aspect that you would have seen is that the Jindal SAW Group is continuing with its effort to make Jindal SAW focus on its core competency. And towards that end we have in yesterday's board also decided to de-subsidize our Italy, because now what we are defining Jindal SAW's core business is pipe manufacturing, pipe manufacturing of all kinds, and we are defining our target market as India, largely Middle East, GCC what we call the MENA region and Far East. As far as the US and Europe we still wish to address the European market with some value added products but largely we want to focus on India, MENA, Far East, this part of the world as our target market with our core products of pipes. In pipes we are determined that we will expand our product range to cover every aspect of pipe that are manufactured from iron and steel. We are also very closely looking at some substitutes of iron and steel and I would like to mention that as well, because as the market evolves we wish to be agile and we wish to make sure that we align ourselves to the market happenings. So, in that direction we have de-subsidized our Italy business, going forward, the Italy business would not be a part of Jindal SAW Group. Second very significant we have successfully commissioned our 16-inch mill in seamless business in Nasik plant, that gives Jindal SAW now a significant and a unique advantage. In carbon steel and alloy steel, now we would have a full range starting from the lowest diameter which is about half inch going right up to 16 inch, earlier we were producing seamless only up to 8 inch, so now on carbon steel and alloy steel we will go from half inch to 16 inch. We already have significant operational advantages over the other participants in terms of the piercing that we do, the PQF that we have which actually positions us into the high end market segment. You would all be very happy to note that in the bearings today we are the established market leader, we have a significant market share in the bearings market.
- Likewise, in the heat exchanger tubes, boiler tubes, T1, T91, so those some of the niche market we are a very strong player. Also you would be very happy to note that through our consolidated subsidiary which will remain a consolidated subsidiary, Jindal Quality Tubular, now we have a full range of stainless steel and there again we have achieved most of the accreditations and certifications.
- So this combination of stainless steel and seamless from ½ inch to 16 inch in seamless, in stainless we can go up to 40 inches of welded stainless pipes again starting from ½ an inch, positions Jindal Saw in a unique, very, very unique position, very few in the world may have something like this as a product range under one management under one umbrella. Obviously two entities one through a step down subsidiary and one is the main parent company. But this puts us in a position in terms of major clients like ONGC or the power sector we would be able to now cater to their entire tubular demand whether it is carbon steel, alloy steel or stainless steel.

- On the pellet side we continue to see a very robust market, a stable market, it is likely to stay stable for at least the next few quarters. In the DI as well as in the large dia also we are seeing that we have a very robust order book, our execution quarter on quarter has become a lot more consistent. In DI also it is important for all of you to know that now we can go up to 1200 mm, earlier or most of the market participants do 1000, we are now going up to 1200, we have got the BIS certification and we are supplying those pipes. So that again gives us a product range which is higher than the market participants, and there are only few who are able to do that.
- So all in all in every product segment we are seeing a very robust performance with an increased product range with an unique position which we expect will give us a lot of momentum as we go forward.
- Another thing, let me just address now for all of you this is probably the last investor call where we would be discussing the standalone result for Jindal SAW because the year-end would always be consolidated and as is required by law, Q1 next year onwards we would always discuss consolidated financial results. So again for investors to note because this has been one of the concerns that all of you have had is in terms of not being able to see the consolidated results. But there let me again address there are now only few subsidiaries which are going to remain consolidated subsidiaries of Jindal SAW. They are all now very much a part of the core business and the core focus area of Jindal SAW, and therefore you would see a consolidated result which are all focused on the core business of Jindal SAW, by then we would have completed our reorganization and restructuring program. One overhang that we are also expecting and a lot of you must be aware of and would be expecting the NTPC arbitration award, let me tell you as per the high court this is the last extension and the award must come before January end. So now there are last few days or the next week would be the last week in that direction and we expect the award to come during that period. Till then we will have to wait. Our assurance is once we get an award I'm sure you would get to know through media sources and other sources but we would make an effort to maybe send a communication or at least make sure that we keep stock exchange or we would ensure that this information is properly disseminated to the group, the stakeholders' group so that you get to know on where we stand with respect to the arbitration award.
- So this is something that I thought I must cover. A few more areas that I would like to mention to you is about the debt level, the performance is improving as you've seen, the EBITDA is improving as you would have seen but you would be happy to note that the term loan is coming down. We are not adding any term debt to our Jindal SAW balance sheet, there no significant addition of term debt even at the subsidiaries' level I can give you that comfort. The working capital loan as you know which is directly related to the performance in terms of the increased performance, to that extent the working capital loan has shown a commensurate increase which is commensurate to the increase in the performance. So now the debt I can confidently say is very much within control it is within our norms it can meet any of the norms or benchmarks that a company of our rating should have, we are well within that.
- Talking about now a little bit about future, the pointers that I can tell you is we have a very robust order book which is giving us a good visibility for the next 3 quarters at least.

We have a good demand appearing in the market and Q4 typically because of the government contract and the budgetary allocations have always been our largest quarter in the 3 quarters. So we expect the momentum to continue. We expect the Q4 results to be more robust and we have a clear visibility for the next few quarters based on our order book. Plus, looking at the business environment we expect that in the near term which is a few years from, we must have a consistent robust good performance for Jindal SAW. So with these opening remarks let me now hand it over to my colleagues who will walk you through some of the numbers, analysis and then we can get into the question answer session.

- Thank you all very much, thank you for showing interest and stay engaged with Jindal SAW, I'm sure we are committed to and we will do good business going forward.

- **Management – Jindal SAW Ltd.**

- Yes, thank you very much, sir. And just to give some colour on the number, of course the numbers had been informed to the stock exchanges and we are sure that you are having the copies of the same. But still in the quarter three for the current financial year 2019 the company had achieved a gross income of close to 2400 crore rupees which is higher by almost 10% as compared to the similar quarter in the previous year. The EBITDA is higher by 16% going up to Rs 370 crore as close as compared to 320 crore rupees and PBT is higher by 38% and PAT is at 150 crore rupees which is higher by 56%. This is as compared to the Q3 2019 v/s the Q3 2018. This quarter there was an appreciation of rupee v/s dollar but as we always indicate in our release also that the company follows a natural hedge policy, the impact on the accounts are normally the accounting treatment under various heads as per the applicable accounting standard. So there is a positive impact on the financials in this quarter on account of the foreign exchange fluctuations which is reflected under various heads whether it is other income, miscellaneous expenses and financial and all. But the impact is not very significant as the impact in last quarter net-on-net was 7 to 8 crore rupees. The impact on this quarter is positive by approximately 13 to 15 crore rupees. As is mentioned in terms of the order book we have order book close to 1.15 million tons for the pipes which is higher, margin is higher as compared to the order book of the previous year, previous quarter what we have disclosed. But the important thing is if you will see specifically in case of ductile pipe, we had an order book of close to 5,55,000 tonnes which is more than the current capacity of our ductile operations. So we have a visibility of more than one year in case of the ductile which also shows the improving and increasing demand in the water sector and more specific for the ductile pipes. In terms of our profitability in EBITDA terms, we believe that the EBITDA is stable. The pipe hybrid EBITDA is approximately Rs. 9,000 per metric ton and in terms of the pellet it is approximately 3,000 rupees per metric ton for this quarter. So the pellet prices in this quarter were better than the previous quarter. So pellet profitability has also contributed to the improved financial performance in this quarter. So this quarter despite that we had almost a similar kind of top line as compared to Q2 of this financial year, 2019 but we have better performance on the EBITDA and profitability. With this we can open the floor for the question answer. Thank you.

- **Moderator**
- Thank you very much. We now begin the question and answer session. Anyone who wishes to ask a question may press star and 1 on their touch tone telephone. If you wish to remove yourself from the question queue, you may press star and 2. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is in the line from Saket Kapoor from Kapoor and Company. Please go ahead.
- **Mr. Saket Kapoor – Kapoor and Company**
- Hello.
- **Mr. Neeraj Kumar – Group CEO & Whole-time Director, Jindal SAW Ltd.**
- Hi, Saket.
- **Mr. Saket Kapoor – Kapoor & Company**
- Yeah, good morning, sir, good morning to everybody. Sir, firstly if you could give some color, more color on the numbers, why I am getting on the same is on account of just a basic comparison. Sir, we posted turnover of around 2340 for December quarter vis-à-vis 2337 for the September quarter and 2100 for the December quarter. However, the cost of raw materials has gone down, how will you explain this part, sir. Why has the cost of raw materials gone down by more than a 100 crores?
- **Management – Jindal SAW Ltd.**
- See basically, we are primarily a project driven company except in the case of ductile pipe. In case of the longitudinal and helical pipes, these are, the raw material is tagged to every purchase order, to every order. So effectively the coil prices and the plate prices in this quarter for the matching project execution were comparatively softer as compared to the previous order execution. This is because like in L Saw and H Saw every order has a specific raw material so whenever it is booked. So the raw material prices were lower in this quarter and accordingly if you see the top line is also flattish on account of that. If the top line, if the raw material prices would have been higher the top line because of the sale could also have been a bit higher.
- **Mr. Saket Kapoor – Kapoor & Company**
- No, sir but sales are also down, sir. I think so comparative basis if you could give the sales number also for the September quarter '18 vis-à-vis the December quarter would have

been very helpful because we find that the sales are also down year on year by around 10%. I am talking about the pipes and the pig iron. I see that, yeah, sir.

– **Management – Jindal SAW Ltd.**

- We appreciate, I think it would need more discussions on the quarter to quarter comparison and all. Maybe we can have a separate discussion for this.

– **Mr. Saket Kapoor – Kapoor & Company**

- No issues, sir, we can elaborate on it later on. And, sir, for the finance cost if you could elaborate there is a very strong reduction in finance costs, so what numbers should we keep in mind for an annualized basis on the finance cost front. The finance cost quarter on quarter is down by around 50 crores plus I think so. So how should investor keep in mind the finance cost part?

– **Management – Jindal SAW Ltd.**

- See, the finance cost is a composition of the finance cost which is on account of the interest and the bank charges and all those things plus the fluctuation in the foreign exchange on account of financial matter. We expect finance cost of approximately 100 crore rupees per quarter, and rest is basically fluctuations in terms of the FX movement. So the last quarter it was 144 crore rupees. This quarter it has come down to 80 crore rupee. So 80 crore rupees is the net of the effect. So if you see only core finance cost, it is close to 100 crore rupees per quarter.

– **Mr. Saket Kapoor – Kapoor & Company**

- Sir, I come to know your operating cash profit. What has been the operating cash for the nine months and how has been the utilization if you could dwell on that.

– **Management – Jindal SAW Ltd.**

- Saket, I think we are basically discussing too detailed on this call.

– **Mr. Saket Kapoor – Kapoor & Company**

- No, sir, it was only for the understanding, sir. I give you my reasoning, why I am asking.

– **Management – Jindal SAW Ltd.**

- If you ask high level, high level you see, the operating profit would had to be let's say utilized for repayment of term loans. This year we have close to 250 crore rupees of the term loan repayment. Then, of course, there are certain capital expenditure on account

of de-bottlenecking or we have done some, for example, now we have already elevated the 16-inch diameter pipe in case of seamless has been commissioned. So, the capex is there, other capex is also there, so whole of the year, this year we would have close to 175 to 200 crore of the capital expenditure also, whatever dividend. And, then because this business is working capital intensive business, the company need to contribute towards margin money on incremental working capital requirement. And of course some retention of that cash is always there in that business for the purpose of growth. So I know from where you are discussing this. As of now we are in the position that we have stabled to improved cash flow. We are vigilant and we know like the management is also on top of that, how we have to take care of our debt levels in the future and how the growth plans have to be done. But largely because you do analysis the financials also, they are the major outflow items out of the operating cash flow.

- **Mr. Neeraj Kumar – Group CEO & Whole-time Director, Jindal SAW Ltd.**
- Basically what we wish to reiterate is that the cash is getting conserved within the company, there is not a rupee which goes out from Jindal SAW now even to its subsidiaries. So all the cash that we generate yes, now business is getting cash, it is all getting conserved within the company and is used for margin money for working capital, regular capex, some de-bottlenecks, some incremental capex and reduction of debt. So to answer your question if you need specific fund flow of where it has been used probably after the call you could contact the team.
- **Mr. Saket Kapoor – Kapoor & Company**
- I will do that...
- **Mr. Neeraj Kumar – Group CEO & Whole-time Director, Jindal SAW Ltd.**
- But...
- **Mr. Saket Kapoor – Kapoor & Company**
- Yes, sir. You continue, sir
- **Mr. Neeraj Kumar – Group CEO & Whole-time Director, Jindal SAW Ltd.**
- It is sufficient for you to understand that the cash is conserved within the system and is being used very productively within the system. Nothing is going out of Jindal SAW.
- **Mr. Saket Kapoor – Kapoor & Company**
- Sir, for the pellet prices you elaborated that prices have softened, so if you could give some understanding in terms of how has the realization moved for the December quarter,

and how has the price trend been for the end of the quarter and for the first month of the next quarter.

- **Mr. Neeraj Kumar – Group CEO & Whole-time Director, Jindal SAW Ltd.**
- See, it has softened from a peak that it had gone, but in general if you see the trend it has been on the higher side. So the pellet prices which used to be in the 7000 range now is in the 9000 range. In between there was a spike, it was close to the 10,000 range. But now it is settling down in the 9000 range. So there is a little settling, but that's okay we prefer it that way because too much spike again brings in you know, a little amount of cyclicity. So we are happy with the present level of prices which are settling around the 9000 range for pellets which has moved from 7000 range etc. which has now given the comfort and the EBITDA margin for pellets has improved on account of that.
- **Mr. Saket Kapoor – Kapoor & Company**
- Sir you can specify the contribution sir for the December quarter in terms of the average realization?
- **Mr. Neeraj Kumar – Group CEO & Whole-time Director, Jindal SAW Ltd.**
- I mentioned to you in the 9000 range. Now it will be 9100 or...
- **Mr. Saket Kapoor – Kapoor & Company**
- 9000 and now it is hovering around 7000-8000.
- **Mr. Neeraj Kumar – Group CEO & Whole-time Director, Jindal SAW Ltd.**
- No Saket. I told you traditionally it used to be 7000 if you go back 3-4 quarters it was around 7. From 7 it has now stabilized to 9. In between it had peaked to 10.
- **Mr. Saket Kapoor – Kapoor & Company**
- Right sir, right sir, right sir. Sir only two more questions. Sir firstly sir as you told that sustainability is the mantra for the concern now, for our organization. And on top of these numbers which are fairly very elevated, a PAT of 150 crores, sir we can still hope that the best is not still given out of the company and we can expect better prospects going forward. And next question in addition to that is what are your efforts for value addition to the shareholders? Sir I remember 24th January 2018 when we came out with our third quarter numbers, and came up with a PAT of 96 crores our stock was trading at Rs. 180. That was a 52 week high. And you see the dilemma today, the numbers are up by 50% and the stock is trading at a 52 – closer to its 52-week low. So lot of shareholder value has

got eroded. The confidence is at its peak. So what steps are you taking up in contemplating building up the shareholders' confidence in the organization? Thank you.

– **Mr. Neeraj Kumar – Group CEO & Whole-time Director, Jindal SAW Ltd.**

- first of all, thank you for asking such a comprehensive question. It can be broken up easily into 5 or 7 questions. But let me address each one of them. A: Based on this sustained performance we definitely see that the best is yet to come. So there is a lot of effort from the organization to sustain, maintain and improve this performance. There are efforts which are happening in this direction. For example, now there is a very serious campaign in this quarter on collection so that we can bring the working capital down. There is a lot of effort that is going on in terms of reducing the cost of production which already you have seen in third quarter the EBITDA margin has improved. It is not just the prices have gone up, the cost of production has also come down if you do your per tonne analysis you will get to see that. Third: There is again very focused and a well-analyzed effort to keep on adding value-added capex. So they are small in number, they are incremental in number, but it gives us a different paradigm altogether. A class in example was 16-inch mill has been commissioned. There are two more mills which is under commissioning which we will probably share with you once it is commissioned in the next quarter. So we are making sure that we address the value added niche market in all our product range, be it introducing the new kind of coating, for example the PU coating which not many people can do. Introduced different kind of products in Ductile like the double chamber pipe, like DN1200. So the company is very, very cognizant and we are looking and scanning the market very carefully. Wherever we are finding opportunities to get into niche value-added products by making some incremental capex we are doing that. There is also a lot of effort and a lot of experts are involved in completely capacity balancing of the plant so that if there is some debottlenecking that is required at any one stage, we make sure that we attend so that the capacity enhancement is there, the productivity improves. There is focus on rejections, on quality and so on. Because as I said we are wanting to become a value-added product or a value-added product segment is where our primary focus is. We do not just wish to be in the commercial grade in every aspect. So quality is again a very important aspect. For our internal management you might be very, very happy to note that there is a massive effort going on by the IT and the commercial team which Mantri is leading to migrate the whole SAP system onto our HANA platform. So all of you would know HANA platform is one of the most modern platform. It gives you a lot of flexibility in terms of processing time, in terms of reporting, in terms of visibility, analytics. So we are migrating to HANA and very soon probably in the next -- Mantri what 3-6 months we should be on a HANA platform. Would you want to talk about that a little bit?

- **Mr. Narendra Mantri - Head Commercial and CFO, Jindal Saw Ltd:**
- Yeah. I think within next 6 months we will be in a position to move to the HANA platform of the SAP. And this will bring lot of additional controls and it will give us flexibility to handle the raw materials in an optimistic manner.
- **Mr. Neeraj Kumar – Group CEO & Whole-time Director, Jindal SAW Ltd.**
- So if you look at, so internally now these are some of the initiatives that is being taken by the company to make sure that our performance is consistent, robust, improves and we improve on our fundamentals in terms of profitability, capital structure and all of those. Now addressing your issues, or addressing or turning your attention to the other question that you had which was about the share prices, now there definitely as company we have taken note of it. We are also a bit concerned that why the market is not reflecting the kind of fundamental strength that is coming in the company. We have now associated ourselves with we believed one of the best in the industry. Vinay, I'll let him talk about it in terms of expert consultant who is helping us now with the analysis and the dissemination of information. So we are doing all of those. And we only expect that sooner than later the market would start reflecting the reality. Because that's one area that definitely we ourselves are wanting to get some feedback on why the market is a bit tentative or where is the gap. So Vinay would you want to talk about that a little bit in terms of agencies...?
- **Mr. Vinay Gupta – Global Head Treasury, Jindal SAW Ltd.**
- Yeah so we said last time also it was mentioned that the company has now on-boarded CDIR which is one of the leading IR firms, set of good professionals, and hopefully they are also listening on this call. The idea is to do more connectivity, talk to more people and get connected. With the discussions and association and information flow more professional, more proactively, perhaps after this financial year because once there was a discussion about the concerned financial also becoming a regulatory requirement. I think our interaction with the investors and the prospective investors will increase in association with CDIR also. So I believe the CDIR is also in discussions or they are also in touch with the prospective shareholders. So we are putting our all best efforts how to communicate and how to communicate more effectively.
- **Mr. Neeraj Kumar – Group CEO & Whole-time Director, Jindal SAW Ltd.**
- So we expect that probably there is a time lag before market really gets all the information, makes up its mind based on an analysis etc. And as I said to repeat we expect sooner than later the market would start reacting to or reflecting the current reality of the fundamental strength of the company.

– **Moderator**

- Thank you. Mr. Kapoor we would request you to come down to the question queue for the follow up questions. Thank you. The next question is from the line of Agastya Dave from CAO Capital. Please go ahead.

– **Mr. Agastya Dave – CAO Capital**

- Thank you for the opportunity sir. Sir very comprehensive answer to this, very useful. Sir the kind of commentary you have given about operation side, can you also add how you have improved your inventory management systems, not just the SAP thing but in general, how have the processes been improved? And I was just wondering in terms of value-add risk, we are in a situation where commodity prices are all over the place and the volatility could just tie off. So can you describe the sensitivity of our business to raw material prices, especially on the inventory side? How much risk are we running as of now? And also on the Fx side. You did give out some numbers. But can you talk a bit more about it? What could be expected over an entire cycle? Let's say a 3-5 year cycle. Also sir you are mentioning that you are going to address the European market through value addition and you also just now mentioned that incremental capex is going towards small value added products. So what are the application areas here? Are these something different than what we were currently doing? Are we adding – so I get the new products. I don't get the new application areas if there are any. And also if you can just give the capacity numbers again. And also the total order book for pipes. I missed those numbers. And finally sir on the quality control side what are your rejection rates as of now and how much have they come down by and what is the level we can approach over a period of time. Thank you sir.

– **Mr. Neeraj Kumar – Group CEO & Whole-time Director, Jindal SAW Ltd.**

- Okay let me see if I can address all of them sequentially one by one. Raw material: Bhilwara as you know we are sitting on a mine head so there the raw material is essentially what we mined and there the effort is to decrease the stripping ratio mined as cost effectively as possible so that the raw material prices remain low. For our DI plant the raw material is iron ore and coal because we have our own coke over batteries which have now been upgraded to meet the entire demand. So on these we have got long term contracts to ensure that there is a stability in the raw material prices both iron ore as well as coal. So there we have long term properly managed strategy of importing both or buying from India. But we ensure that we have long term contracts to hedge against any cyclicity or any spike either way in those areas. As far as the...

– **Mr. Agastya Dave – CAO Capital**

- How long term are these contract sir?

- **Mr. Neeraj Kumar – Group CEO & Whole-time Director, Jindal SAW Ltd.**
- Sorry?
- **Mr. Agastya Dave – CAO Capital**
- How long term are these contracts, the tenure?
- **Mr. Neeraj Kumar – Group CEO & Whole-time Director, Jindal SAW Ltd.**
- Minimum we are looking at a 12 month. At any point of time we always try and create a rolling 12 month kind of a scenario so that we are able to not put ourselves or bind ourselves in case of any major thing. But at least if there is a temporary spike we are hedged against that.
- **Mr. Agastya Dave – CAO Capital**
- Sure, perfect.
- **Mr. Neeraj Kumar – Group CEO & Whole-time Director, Jindal SAW Ltd.**
- Now looking at raw material in terms of hot roll coils and plates, that as you know is largely in the spot market. These are commodities which the steel producers always give you a spot price. There the hedging strategy that we use is the moment we have visibility of the product or the project or the top line and delivery we immediately go and block the entire raw material. So we try and reduce the time line between the bidding price so that when we actually book the raw material we are as close to our bided price so that the margins and the profitability is protected because otherwise coils and plates are essentially a spot market phenomenon. Billets which is used for Nasik similar strategy is being followed. But there we are looking at some possibilities of backward integration. Probably I would share that with you or I would be in a position to share all of those with you next quarter that we are looking at taking a few steps where we are able to hedge ourselves against the billet that we use, and we are able to make it more cost efficient. So that's how we are ensuring that the raw material cycle for all our product range is best hedged. Quality and rejection, different products have different rejections. All I can at this point of time mention to you is we are far superior than the industry average. So in pellets, in fact because of the pellets being magnetic in nature, there actually the productivity is much higher because the magnetite pellets are exothermic in nature. So we actually conserve a lot of energy. And if you look at our pellet production it is far superior than any of the others which are using hematite as an ore as opposed to magnetite which we use which is beneficiated. Looking at my seamless, looking at my hot roll coils large dia or DI, again the rejections that we have is far superior to what the normal industry average is. But there is a constant effort to improve and the way we are improving that is by collaborating with the experts. For example, today we have one of the world's best people advising us

on the mould management for DI. That's a significant cost in terms of mould change over time, mould maintenance, mould life. So we do have and we are moving towards creating standard operating procedures. We are moving towards creating a fineness environment. We are moving towards creating a CLRI environment. So these are tools which are being used and it is being implemented right at the shop floor level so that there is a systemic approach to all these in terms of the touch and look of the plant, in terms of the quality, in terms of the productivity. So these are again things and benchmarks which are being A: documented properly, B: it is being captured. And that's where as Mantri said now in the HANA environment the granular details which will get captured at a shop floor level would be much higher. So that would give you a better control. Now even the operating level people would have a feedback, would have a format to tell them on how they are performing as they are performing. So there would be online feedback on the key performance parameters at the operating level itself. We are trying to go for automation for example. Some of the machines we are trying to put vibration meters to just make sure that the health of the machine is continuously monitored as the machine is in a running condition and we get to see if there are any anomalies which are there. So there is an effort on automation, there is an effort on documentation, process improvement. On all these areas there are efforts that are being put, specialists are being consulted, and we are making sure that it percolates down to the shop floor level. So that's how we are looking at making sure that we have a sustained good performance and we manage our cost also efficiently. Thank you.

– **Moderator**

– Thank you. The next question is from the line of Ritika Garg from Equitas Investments. Please go ahead.

– **Ms. Ritika Garg - Equitas Investments**

– Hello? Good morning sir. Sir I wanted to know what are our capex plans for FY20?

– **Mr. Neeraj Kumar – Group CEO & Whole-time Director, Jindal SAW Ltd.**

– Capex plans for FY20 as of now what we have said is normal capex plus this incremental capex to address some of the niche areas which are there. So the total capex that we are talking of would be in the vicinity of maybe 200 crores max which will take care of the regular capex and these gaps that we have to fill in in terms of debottlenecking, in terms of value addition and others.

– **Ms. Ritika Garg - Equitas Investments**

– Okay. And what are our debt prepay? Are we planning to prepay any debt?

– **Mr. Neeraj Kumar – Group CEO & Whole-time Director, Jindal SAW Ltd.**

- No we are not planning to prepay our debt because with a lot of effort from the treasury side, we have been able to achieve a maturity profile and we wish to maintain that maturity profile where the intention was to conserve cash and use it for more productive use. So we definitely do not want to prepay any of our long term debt. The working capital debt will keep on moving up and down in line with the operations. But term debt we are not prepaying.
- **Ms. Ritika Garg - Equitas Investments**
- Okay. And what would be the timeline for de-subsidization of Italy?
- **Mr. Neeraj Kumar – Group CEO & Whole-time Director, Jindal SAW Ltd.**
- It's done. Yesterday we had a board meeting. We got the board resolution. All the papers etc. are ready. The structure was ready it is expected to happen in a week's time.
- **Ms. Ritika Garg - Equitas Investments**
- And would Jindal Saw be receiving any consideration for this?
- **Mr. Neeraj Kumar – Group CEO & Whole-time Director, Jindal SAW Ltd.**
- For de-subsidization? No. It is being done in a cash efficient and in a tax efficient manner where there is no cash transactions.
- **Ms. Ritika Garg - Equitas Investments**
- Okay no cash transactions. Okay now DI is having a record order book where the order book is exceeding our capacity. So do we have any plans for organic or inorganic expansion there?
- **Mr. Neeraj Kumar – Group CEO & Whole-time Director, Jindal SAW Ltd.**
- The answer is yes, we do have some plans. Probably it is a bit premature for us to talk about it. But yes we do have a strategy and we do have a plan but let me just clarify it's not just organic growth or not something which is going to load with a lot of investment. So it will not be an investment heavy but we are cognizant of the DI demand and our ability to do more in DI. So...
- **Ms. Ritika Garg - Equitas Investments**
- Okay so basically...

- **Mr. Neeraj Kumar – Group CEO & Whole-time Director, Jindal SAW Ltd.**
- So that is what I am saying, let me reiterate and let me clarify this so that people get this correctly we are in the middle of strategic thinking, strategic implementation. Therefore, I would not be able to elaborate it fully. Probably next quarter we would be able to do that. But on DI we are a) cognizant of our ability, b) cognizant of the demand and therefore we are putting up a strategy which is not front loaded with capital on how to address this whole thing.
- **Ms. Ritika Garg - Equitas Investments**
- Okay. So when can we start the expanded capacity production? When do we foresee that starting by?
- **Mr. Neeraj Kumar – Group CEO & Whole-time Director, Jindal SAW Ltd.**
- Wait for my next quarter call.
- **Ms. Ritika Garg - Equitas Investments**
- Okay. And in seamless now we've started the 16 inch dia pipes right? So the large dia pipes would be what percentage of like my overall revenue for seamless? We could do in 16 inch mill up to 4000 tonnes. So that's something that we could look at per month. Yes, depending on the demand because we will have to seed the market, we will have to enter the demand and those are again contract driven. But we would have a capacity of going up to 4000 tonnes per month.
- **Ms. Ritika Garg - Equitas Investments**
- Okay. And my total capacity then in seamless would be 2.50 lakhs tonnes?
- **Mr. Neeraj Kumar – Group CEO & Whole-time Director, Jindal SAW Ltd.**
- As of now yes. But that again is a moving target because as you know we have taken over Nagothane plant of Mahalakshmi and there again some capacity improvement, some de-bottlenecking, some addition is happening. So yes at present you can say we are in that range. But that's a moving target. It will continue to move quarter on quarter as we move ahead, as we keep on just putting some more capex and commissioning a few plants which are at current under commissioning.
- **Ms. Ritika Garg - Equitas Investments**
- Okay. And what is the outlook for UAE and US? Like how are subsidiaries there doing?

- **Mr. Neeraj Kumar – Group CEO & Whole-time Director, Jindal SAW Ltd.**
- Okay UAE is improving. This year we expect our Abu Dhabi plant to break even on profitability basis. Definitely they are EBITDA positive. They are not sucking any more cash. That is definite. We have done a significant improvement over last year's performance. And we expect the Abu Dhabi plant to going forward do reasonably well. US as you know is not our target market is being handled through associates. They are no longer subsidiaries of Jindal Saw. And therefore it would not be appropriate for me to talk about them on this. As far as the US Bay Town facility which is the job work facility is concerned, that is doing very well. It is throwing a lot of profit and cash which it will continue to do so.
- **Ms. Ritika Garg - Equitas Investments**
- Okay. And exports of our order book is 30%. But of our sales how much would exports be?
- **Mr. Neeraj Kumar – Group CEO & Whole-time Director, Jindal SAW Ltd.**
- In Q4 etc. you may see this 30% top line from exports may inch towards 35. Because now we are seeing some significant projects coming in the reconstruction of Iraq. We are opening up some new markets in Africa. So it may inch towards 35. But it will be in the same range. You would not see any major significant change. So it will be between 30 and 35.
- **Moderator**
- Thank you Ms. Garg. We would request you to come back to the queue for the follow up questions. A reminder to all the participants, ladies and gentlemen, in order to ensure that management is able to address questions from all participants in the conference, please limit your questions to two per participant. Should you have any follow up question, we would request you to rejoin the queue. The next question is from the line of Saurabh Poddar from Lucky Investments. Please go ahead.
- **Mr. Saurabh Poddar - Lucky Investments**
- Hi sir, congratulations on a good set of numbers. I got disconnected in the middle so I just wanted to ask you a question which might be repetitive. So I believe steel prices have been softening. Does that have an impact on our margins? Like our ability to take price hikes or anything in terms of that. And my second question was oil prices have seen significant volatility and now they have settled around \$60 or so. So does that affect any demand coming in from the Middle East? Because I know oil prices are a significant part of – I think you discussed previously that oil prices stabilizing is a significant part of capex from their end as well.

– **Mr. Neeraj Kumar – Group CEO & Whole-time Director, Jindal SAW Ltd.**

– Oil prices are definitely a pointer towards we being able to address the oil industry. But it's important for you to note that only a certain part of our revenue pipe, maybe around 20-30% is what is dedicated to oil prices. So to that extent we vis-à-vis competition, are much better hedged to deal with any volatility in oil price than any of our competitors which makes us into a much stronger position. Second, \$60-70 is still within that reasonable band where investment in pipe as a method of transportation would continue. So as I mentioned to you earlier also that we are looking at a few big projects in Saudi. We are looking at a few big projects in Africa. So at present in the current oil prices levels also we are not unduly concerned about the demand in the oil and gas sector. Gas sector is doing well. GAIL is coming up with a lot of pipelines. So that is kind of supporting the pipe supply in the oil and gas sector. Reconstruction of Iraq is significant. A lot of money is being poured because the entire Iraq pipeline has been kind of destroyed. So a lot of effort is happening there as well.

– **Mr. Saurabh Poddar - Lucky Investments**

– Okay got it. And sir what about the steel prices? With the steel prices softening does that affect our ability or our margins in terms of taking...

– **Mr. Neeraj Kumar – Group CEO & Whole-time Director, Jindal SAW Ltd.**

– Not much. Not much. As I told you in steel prices we follow a strategy of immediately blocking our steel prices the moment we have a visibility of the project. So to that extent we stay hedged and that means any spike whether up or down it doesn't impact us much. So we at least work on protecting our – see one thing now as Jindal Saw we are continuously moving towards is not letting any spike affect us negatively. And therefore what we have to give up in return is that suppose if a sudden price movement in the opposite direction which could have given us an opportunity, we are giving up a part of that as well. So we are more for stability and sustainability rather than trying to play the market and be opportunistic about it. That's a general management principle that we are following now in Jindal Saw.

– **Mr. Saurabh Poddar - Lucky Investments**

– Got it sir. Thank you.

– **Moderator**

– Thank you. The next question is from the line of Mr. Manish Bhandari from Vallum Capital. Please go ahead.

– **Mr. Manish Bhandari – Vallum Capital**

- Hi good afternoon. I am not able to comprehend the forex movement what has impacted our P&L this time. And if you have to do a consolidation on the 9 month level then what should be the forex impact on our P&L positive-negatively. And which all areas it is impacted us?

– **Mr. Neeraj Kumar – Group CEO & Whole-time Director, Jindal SAW Ltd.**

- Manish see, foreign exchange the way it works and this is not the way ideally we would have liked it to work. But the way this works as per the accounting standards is, if there is any positive movement of foreign exchange which is impacting us positively, it shows up in the topline by way of the export realization goes up. Whenever there is a negative movement in the forex, it hits our P&L, in terms of, it hits your interest figure. So that's how the whole accounting thing is somehow designed and that is where we have to work on. So, the net impact of that is very very difficult for us to explain that on a call. I would probably ask my finance team to do this calculation separately. Basically, any positive impact of forex hits your receivables and therefore it just hits your topline. Negative impact hits your interest cost, if you have a foreign exchange borrowing or a supplier's credit or whatever, and it straight away just comes and... And that is what Vinay initially explained to you in terms of the movement of interest cost from Rs. 140 down to Rs. 80 crores Because the core interest cost which is a payout to the bank in terms of term loan interest, in terms of working capital interest, in terms of bank guarantee commission, in terms of non-funded commission and all that, there is no significant change. Now, Jindal Saw has moved into a very stable capital structure. So the rest of it is all froth. I'm using the phrase 'froth' just to tell you, it is essentially on account of foreign exchange movement. Now, the contra of that in the topline will have to be worked out by the team, by separating the export receivables and how it has moved over what period of time. So that would require a little amount of calculation, which I'm sure my team would be able to supply to you.

– **Mr. Manish Bhandari – Vallum Capital:**

- The essence of my asking this question was, the operational numbers impacted by the forex movement significantly this year? So can we make a judgement that the... You also made a statement during the course of the call that the operational number this year, this quarter, and finally we'll see a far better sustained performance. So I'm just trying to understand, is this quarter number influenced by some wide variations on the forex numbers?

– **Management - Jindal Saw Ltd:**

- The answer is No. As Vinay probably already mentioned to you, the impact of foreign exchange on the P&L for this quarter is less than Rs. 15 crores. If it is less than Rs. 15 crores

on a PBT of Rs. 150 crores, you wouldn't call it significant. Last quarter it was app. Rs. 5-8 crores. So the impact is somewhere 8, somewhere 15, one way or the other. So to that extent, on this kind of a topline or an EBITDA of around Rs. 1,400 crores, the impact would be small. Maximum that you can see on the negative side, it would not go beyond Rs. 15 to 20 crores, unless there is again a complete run away in the foreign exchange market, which we don't expect looking at the way the Indian economy is. If you see, the Rupee did pull back. We were all thinking that it would run away. But we had a view which is slightly different. In hindsight, we were proven right. The Rupee did pull back from Rs. 72-73 at one point of time when it was running that way. So the impact of foreign exchange is definitely going to be there. But, if you wish to completely eliminate that impact and see the performance of the company without any foreign exchange, positive or negative impact, I'll ask my team to work that number out and share it with you.

– **Mr. Manish Bhandari – Vallum Capital:**

- Sure. Sir, two very short questions. One is related to the pallet prices. Is there a structural change in China which can impact the pallet prices? And, the pallet prices which shows up to us is, Rs. 5,800-6,000 and you mentioned about Rs. 9,000. Have you added the freight charges? How should we compare the pallet prices?

– **Management - Jindal Saw Ltd:**

- In China, there is some reduction in capacity in the steel pallet and everywhere, and they are real reductions, and they are reductions which are noticeable. So definitely, if China is cutting on the supply side for steel, to that extent it is going to definitely impact the overall market, including ours. Second, as a deliberate strategy, we have chosen Gujarat as our primary market for sale of pallets, and we have consciously kept one foot in the export market, where largely we are wanting to enter the Korean market with our superior quality pallets and we are successful there. So for us, the market is Korea and Gujarat. I don't know from where you got those Rs. 5,800-6,000 numbers. Maybe it is from the people or the pallet producers from Eastern India or from the rest of India. Then yes, we do get a freight advantage, Bhilwara being so close to Gujarat, and having Gujarat as our primary market. We have a few thousand rupees of freight advantage in our pallets. Because, if they have to do a substitute, then any of those Eastern India or Southern India pallets, you have to add that. So to that extent, we do get the benefit of freight advantage as well in our topline, which I mentioned are in the Rs. 9,000 range. Thank you.

– **Operator:**

- Thank you. The next question is from the line of Ritesh Gandhi from Discovery Capital. Please go ahead.

– **Mr. Ritesh Gandhi – Discovery Capital:**

- Hi, and congratulation on your numbers! I had a quick question. If we were to look at the consol basis, the numbers, this year we expect it to be a neutral and not eat into any of the standalone profit after tax? Is that understanding correct?
- **Management - Jindal Saw Ltd:**
- Yes. Without going into details, because I would not like to talk about forward looking numbers. But, it is safe to assume that the subsidiaries are not going to negatively or have any significant negative impact on the standalone. From the subsidiaries, it is unlikely to happen.
- **Mr. Ritesh Gandhi – Discovery Capital:**
- The next question would just be to re-clarify. The impact on PBT for this entire FX with benefit that we got, your saying is not more than Rs. 15 crores.
- **Management - Jindal Saw Ltd:**
- For this quarter, yes.
- **Mr. Ritesh Gandhi – Discovery Capital:**
- So even if we strip that out, effectively it is still an extremely strong operational performance?
- **Management - Jindal Saw Ltd:**
- Yes.
- **Mr. Ritesh Gandhi – Discovery Capital:**
- And just to understand in terms of opportunities, there's a big pipeline, right? Effectively speaking, are we seeing a lot of new orders being bid for?
- **Management - Jindal Saw Ltd:**
- Yes. Our bidding department is busy at this point in time.
- **Mr. Ritesh Gandhi – Discovery Capital:**
- Got it. And do we think there will be adequate demand in any case. So in case there is any slowdown going into elections, we are anyways covered with our existing order book for the next year or so. And then there is adequate time to effect to it?

- **Management - Jindal Saw Ltd:**
- Yes, we are as Jindal Saw, we are largely agnostic to the election results.
- **Operator:**
- Thank you. The next question is from the line of Vivek Kumar from Shiv Sagar Investments. Please go ahead.
- **Mr. Vivek Kumar:**
- Thank you for the opportunity. I just want to understand what is the mine reserves in your Rajasthan belt and what is the lease period? And what is the Fe content? And how do you plan to move ahead by including the pellet capacity or...?
- **Management - Jindal Saw Ltd:**
- The lease period for the mine is 50 years, out of which we would've probably used close to 10. So there still is a lot to go. There is enough reserves available. We are now opening the Lampia mine also for us. Fe content ranges between 25 to 30, we are the only ones in the country who have now a very well established beneficiation process. We upgrade to the beneficiation magnetic separation upto 63, 65 and 67. Now we have pellets which are 63, 65 and 67 in 3 categories, and we are able to do that without any problem. As I mentioned, our beneficiation process is very well established and very robust. Thank you.
- **Mr. Vivek Kumar:**
- For every 1 million ton of pellet, you might be using around 2 to 2.5 million ton of your own/ore, right?
- **Management - Jindal Saw Ltd:**
- Yes, your understanding is correct. It depends on the Fe content average, but yes, you are correct. So 2.5 to maybe 4, depending on how much of the initial Fe content is there, we are able to get that. We have been able to improve that as well because now we have gone for scavenging, as we call it, tertiary refining. So therefore, we have improved that ROM. The concentrate ratio has also improved over a period of time.
- **Mr. Vivek Kumar:**
- Reserves you said were 180 million tons?

- **Management - Jindal Saw Ltd:**
- As is said, reserve is enough to last the lease period, which is 50 years. Out of which, probably we have used 10. So there is enough reserve. There is no concern on the reserves. We have opened a new mine for us, which we call the Lampia mine. That also has a lot of reserve.
- **Mr. Vivek Kumar:**
- Sir, could you tell me the asset turn for these large diameter pipes, DI pipes. Just the industry average asset turn?
- **Management - Jindal Saw Ltd:**
- I'm not able to get your question.
- **Mr. Vivek Kumar:**
- The asset turnover of every rupee made in Capex. What is the turnover?
- **Management - Jindal Saw Ltd:**
- Asset turnover. No, no. You would probably have to do a bit more analysis. See, asset turnover for large diameter, for DI would be significantly different. Even in large diameter, if you go for LSAW and HSAW, they would be significantly different. In HSAW if you go for oil and gas and water, it would again be very very different because HSAW mill only producing pipes for water, will cost much less than an HSAW mill which does oil and gas. So, that requires a little more of analysis and understanding, which I would suggest that you again get in touch with my team. On this call, it would be a) difficult to explain and b) you might misunderstand. So I would rather request you to do a bit of more analysis, because they are very very different. In DI, you have to start from a blast furnace. In water segment, HSAW, you have to just put maybe 3-4 machines. So if you're looking at an asset turnover, etc in that ratio, in that manner, you'd have to look at segment wise rather than generic average.
- **Mr. Vivek Kumar:**
- So the pallet margin would be around 18-20% this quarter, or more than that?
- **Management - Jindal Saw Ltd:**
- See, I have given you the topline, and you also understand that the EBITDA breakup we do not discuss, because that is one of the strategic advantages that Jindal Saw has, of

having a multi divisional blended EBITDA. So I'll not be able to comment on the EBITDA margin of anybody.

– **Mr. Vivek Kumar:**

– You were earlier planning to set up the steel plant. So how do you plan to use the mine? Only pallets for the next 50 years? I don't think so. At some point, you might be looking at a forward integration.

– **Management - Jindal Saw Ltd:**

– You are right. At some point of time we would have to look at some integration in terms of forward, etc. But as I said, we have not announced anything as yet. We have not taken any board approval for anything as yet. So for now, you can say, Yes. The steel plant has been on the horizon for some time. It continues to be on the horizon for some time. It makes a lot of sense to have that. But, we have not announced or we have not begun any groundbreaking on that as yet.

– **Operator:**

– Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments.

– **Management - Jindal Saw Ltd:**

– I must thank all my stakeholders, all participants for their keen interest, engagement. And as I said, now we have engaged with one of the best in the industry who can be contacted at any point of time with any set of questions. If you need input from the company, again, my request would be to please request them. They can facilitate an even more detailed discussion with the companies. So with all of these, I thank you all very much. And, we will see you next quarter, even with a better result, is what I can assure you. Thank you very much.

– **Operator:**

– Thank you. On behalf of Prabhudas Lilladher Pvt. Ltd., that concludes this conference. Thank you for joining us, and you may now disconnect you lines.

– **END OF TRANSCRIPT**