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- **JINDAL SAW LIMITED**

- **Q1 FY19 EARNINGS CONFERENCE CALL**

- **01082018**
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- **Moderator**

- Ladies and gentlemen, good day and welcome to Jindal SAW Ltd. Q1, FY'19 earnings conference call hosted by Prabhudas Lilladher Pvt. Ltd. As a reminder all participant lines will be in the listen only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing star and then zero on your touch tone phone. And I now hand over the conference to Mr. Kamlesh Bagmar from Prabhudas Lilladher Privated Limited. Thank you and over to you.

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

- Thanks, Mohsin. Hello to everyone, on behalf of Prabhudas Lilladher, I welcome you all to the Q1 FY'19 post results con call. 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 floor to Mr. Neeraj Kumar, for the opening remarks. And later on we will open the floor for Q&A. Over to you, sir.

- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**

- Good afternoon, friends. Thank you for taking time to come on this conference call. This morning we had a board meeting which was following the audit committee meeting. The independent directors also had a meeting among themselves in terms of just the committee of all the independent directors. And we are happy you could see the 1st quarter results in front of you. This quarter we have posted a top line of 2,346 crores with EBITDA of 350, PBT 137, PAT 95. Compared to the 1st quarter or corresponding quarter last year, top line up 55%, EBITDA up 51%, PBT up 61%. If you compare it with the trailing quarter which for an organisation like ours is actually not the correct comparison because typically Q4 constitutes almost 35 to 40% of the result. Primarily, because we deal a lot with the government and there the budget allocations, etc, are such that usually Q1 is a little on the lower side because not all allocations have come. And usually Q4 is very heavy

because they all want to finish all the budget allocations and purchase whatever they can. But still if you compare it with Q4 or the trailing quarter, top line is marginally down by about 6%, EBITDA is down about 20% and PBT is down around 45%. The primary contributors for lower EBITDA and PBT are (a) raw material prices have gone up a little bit in Q1 as compared to Q4 and the financial charges have gone up as compared to Q4. The financial charges have gone up primarily on account of foreign exchange, dollars moving from 65 to 68 range. And also you might recall there has been change in some of the export financing regulations post PNB, where most of the non-funded export finance line has been converted into funded. So, that has also added a bit to the financial cost. So, all in all results are encouraging. We have built a very strong momentum. Order book is good. Visibility looks okay. So, this year we should be on track with whatever we see in front of us as a Q1 results. And the trend as we have seen last year going from Q1 to Q4, probably we expect a repeat of a similar kind of a scenario. If that happens then we expect the year to end on a healthy growth.

- To take you through some of the other significant items. Now all of you are fully aware we do not have any overhang of any of the subsidiaries, that's all gone. Whatever are the surviving corporate guarantees, etc, are coming down very steeply, primarily because those loans are getting repaid or the treasury department is also putting in efforts to refinance and all refinancing is done without any corporate guarantee support from Jindal Saw. So, even on the contingent liability front there has been a significant reduction but otherwise also you need to take a comfort, it has never been that any of these corporate guarantees have ever been called upon or Jindal SAW has paid a penny towards any of these liabilities. The overall debt position has improved for the last quarter. The consolidated debt position has improved from the last quarter. Order book is robust, close to a billion. And we expect our margins to improve, the EBITDA margins or the EBITDA per ton in spite to improve because whenever there is spike in the raw material prices for a few months or weeks, we feel the pressure a little bit as we have felt in our 1st quarter. But then we are able to pass it on to our customers we are seeing the DI price has been frozen, we have been able to increase, market has absorbed it. Large diameter pipe price has increased, market has absorbed it. We have seen that, we have seen that market is absorbing some increase in price. So, as we go along we expect our margins to improve and we expect to maintain this momentum which gives us leadership position. I am sure all of you would have seen water sector is getting a lot of emphasis whether by way of the water grid which every state is kind of announcing, Madhya Pradesh even Maharashtra today has come out with clarification or some announcement with respect to water projects. There is also now a lot of effort and lot of activity happening for linking of water bodies at the level of centre. So, water sector is one where we see a lot of things that are beginning to happen. And we expect that it would lead to a sustainable growth in the demand for large diameter pipes. DI pipes as you know are doing well. There has

been some changes and I am sure all of you are aware on the supply side there have been some disruptions and NCLT cases, etc, which has again restored demand supply balance and helped us restore the price. On seamless our stainless business is now beginning to do well. In fact, now the stainless seamless combined sales beginning to make impact and I am sure as we progress during the year, that business would make a significant impact in our margins, NSR and improvement in that area.

- I am sure this is not related to Jindal SAW but it's important for you to note, we have announced a joint venture in our JWIL the Jindal Water Infra Company that was one of the subsidiaries under the erstwhile JITF. As you know for all noncore businesses, we are looking for strategic partners, joint venture partners etc. So, there we have been now able to get very a significant company to associate. They are now in management control and they would take that company forward. So, one of companies under Jindal Infra-logistics Ltd is now a joint venture. We are looking for similar strategic partners or joint venture partners for other businesses including Waste to Energy and Rail Wagon. So, overall the overhang of all the subsidiaries on Jindal SAW has completely gone. And Jindal SAW is now beginning to move on the growth path which is rapid. Momentum is good. Environment looks encouraging, we have good visibility and we are committed to do good business. So based on these words let me stop and request you for any of your questions or clarifications that you may have.

- **Moderator**

- Thank you very much, sir. We will now begin the question and answer session. Anyone who wishes to ask a question may press star and 1 on your touch tone phone. If you wish to move yourself from the question queue, you may press star and 2. Participants are requested to use handsets while asking the questions. We will wait for a moment while the question queue assembles. We have our first question from the line of Vridhesh Gandhi from Discovery Capital. Please go ahead.

- **Mr. Vridhesh Gandhi – Discovery Capital**

- Congratulation to you on your numbers. There is a question. See, even last year when we had con calls you were guiding towards looking at standalone numbers as opposed to the consolidated numbers, where at the end of the day the consolidated, actually numbers did impact. Can you just give us some more details on how all the Jindal ITF businesses and the Abu Dhabi business are doing. And if they are now neutral or profitable on EBITDA basis.

- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**

- See, okay, probably this is the last year when we are having this discussion of consol versus standalone because next year onwards I am sure every quarter would be consol. But just to clarify none of the JITF businesses are now attached to Jindal SAW in any manner whatsoever. Jindal SAW does not own even a single share where it comes to JWIL as I mentioned to you, the waste to energy business or the rail manufacturing business. So, they are completely out of it. Now in terms of the consolidation when it comes, the Abu Dhabi because of the structural requirements in Abu Dhabi is only about 35% effectively held by Jindal SAW. But to give you comfort Abu Dhabi has turned profitable. This year we expect Abu Dhabi to give a positive PBT, not only positive PBT we expect them to give reasonable result because we expect their performance to improve significantly. And the trend for the first 4 months are all indicating in that direction. In fact, they are tracking their projections and their business plan. But for Abu Dhabi, the rest of the businesses as you know in JOLS which is NTPC contracts etc there is no activity almost cash neutral and there is no, so, there will not be anything that would come by way of consolidation. We have one US subsidiary which is essentially doing coating working on job work basis. That continues to give good profit and this year also it will continue to give good profit. So, you can only expect additions to EBITDA, PBT, every level because of consolidation, on account of Abu Dhabi and US, that's all, you don't need to now take into account any of the other P R Jindal group of companies when it comes to consolidation.

- **Mr. Vridhesh Gandhi – Discovery Capital**

- Okay. Just to clarify so that Jindal ITF which I think was the largest source of losses and Italian business effectively, these two we own no stake any more?

- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**

- JITF no stake any more, okay. Second one you asked Italy.

- **Mr. Vridhesh Gandhi – Discovery Capital**

- Yes.

- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**

- Italy is a part of the Abu Dhabi facility.

- **Mr. Vridhesh Gandhi – Discovery Capital**

- Got it. So, you are figuring net-net between Italy and Abu Dhabi we will get a positive contribution at PBT, at EBITDA and PBT level.

- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**

- Yeah. The one business of the residual part of the inland water business which is the residual part of JOLS of whatever which we used to call, which is still a part of Jindal SAW. But it has got no significant impact either on the top line or on the EBITDA or on the bottom line. Because now as you know, we are only awaiting the award for the NTPC as well as KOPT arbitration. Not much of activity is carried on there. So, it is of most cash neutral and a very small top line which we are getting just by hiring of those branches.

- **Mr. Vridhesh Gandhi – Discovery Capital**

- Got it, and effectively speaking any indication on the consol how externally the numbers look for Q1.

- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**

- No, at this point of time I would not like to hazard a guess. But I must tell you that if you look at the EBITDA level more than 80% or 85% EBITDA would be constituted by Jindal SAW. Even if you look at consol level and the balance would all be plus, so, it is only going to improve.

- **Mr. Vridhesh Gandhi – Discovery Capital**

- Got it. Last question.

- **Moderator**

- Mr. Gandhi, could I please request you to move in the queue.

- **Mr. Vridhesh Gandhi – Discovery Capital**

- Okay.

- **Moderator**

- We have our next question from the line of Abhishek Jain from Vallum Capital. Please go ahead.

- **Mr. Abhishek Jain – Vallum Capital**

- Sir, how much section benefit level we are getting in the consol level due to subsidiary and all. Sir, how you see the benefit being forego after realization of subsidiary. Also the tax implication on NTPC payment. And the second question from my side is how

much capacity utilisation levels in Italy and Middle East currently and what is the demand outlook in MENA region. Who are the competitors over there for us?

- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**

- Okay. Let me take those in reverse order. MENA region there are no DI plants. So, all the competition comes from China and some from India, from other people if they are able to export. But primarily it is China, which largely has been corrected because the Saint Gobain' China plant has been shut. And Saint Gobain from France is not able to compete on account of cost in the MENA region. So, the supply, demand or the competitive scenario in MENA region has improved on account of these factors. Second, this year we are expecting that we would definitely do sale of more than 140,000 tons. Last year as you know the DI sale from Abu Dhabi Unit was around 80,000 tons This year we are definitely going to cross 140,000 tons for sure. We do have a robust order book and we have a visibility of good orders or good business. Saudi Arabia is coming back, Iraq is beginning to reconstruct and there are enough, one setback definitely we have in Abu Dhabi is Qatar. Because the FIFA 2020 was, a lot of infrastructure investment was to be done there and we expected a lot to come from Qatar. But because of what is happening in Middle East that has been a loss of market to us. But still it has been compensated by the improvement in the oil crisis leading to investment climate improvement in the MENA region. So, that gives you a good sense on where we are in Abu Dhabi.

- **Mr. Abhishek Jain – Vallum Capital**

- And sir, taxation benefit....

- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**

- Say it again.

- **Mr. Abhishek Jain – Vallum Capital**

- Hello, yeah. Taxation benefit we are getting at consol level due to subsidiary and all, and tax....

- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**

- Hold, hold. Let's go slow, what taxation benefit you are talking about getting. I don't think we are getting any taxation benefits because at the consol level except that now in Abu Dhabi there is no income tax and also there is a 5% VAT. So that would be reflected in the P&L and that would get consolidated. I am not sure what you mean by taxation

benefit because of the subsidiaries in Jindal SAW. I don't see any significant impact anyway.

- **Mr. Abhishek Jain – Vallum Capital**

- Okay, how is the taxation implication on NTPC payment, sir?

- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**

- NTPC, okay, once we receive the NTPC award then how there would be a tax impact on that?

- **Mr. Abhishek Jain – Vallum Capital**

- Yeah.

- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**

- Okay, so it is a little premature to answer that because it would all depend on the quantum of awards, because as you know there is already a lot of significant amount of loans and advances etc., which has been given. So how it would actually get treated would depend upon the quantum of award and since now the matter is in the final stages of judicial pronouncement it would not be appropriate for me to hazard a guess.

- **Mr. Abhishek Jain – Vallum Capital**

- And, sir, if you have any non-core assets in oil?

- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**

- Your voice is not very clear I am not able to get your question.

- **Mr. Abhishek Jain – Vallum Capital**

- (21:23)

- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**

- Hello.

- **Mr. Abhishek Jain – Vallum Capital**

- If you have any number that....

- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**

- No, I still cannot get you. Can I request the moderator to please translate this question?

- **Moderator**

- Mr. Jain, your voice is breaking, could you please try and get back in the queue because you are not audible, sir.

- **Mr. Abhishek Jain – Vallum Capital**

- Okay.

- **Moderator**

- We have the next question from the line of A.M. Lodha of Sanmati Consultant. Please go ahead.

- **Mr. A.M. Lodha – Sanmati Consultant**

- Thank you very much, sir, for opportunity, good evening. Sir, your company is holding the board meeting at 3:30 or some 3 o'clock and the results are coming at quarter to 4 o'clock, sir, and then press release of results, we could not get time to read in half an hour to analyse and ask the questions to the management on the concall. Can't the management do the concall on the next day, sir?

- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**

- I would be more than happy, in fact I would absolutely agree with you and I would be more than happy to at least have a day's breather answering all the questions in the audit committee and then the board meeting and the coming on to this call. But I guess that there are requests from people to get a chance to understand all these results as quickly as people as possible and hence we should hold the call early.

- **Mr. A.M. Lodha – Sanmati Consultant**

- Sir, don't mind, sir, don't mind. Quickly doesn't mean that we don't have the opportunity to read your four pages, the press release is just given at 4 o'clock, and results by quarter to 4 o'clock and you have the conference here at 4:30, how can we read and understand the implications, read, note and all these things. No investor, no institute or investor market closes at 3:30, no institutional investor, no FII, no mutual fund, no fund manager will be able to see the, able to see the press release and the result. So what does it mean, actually we should be given sufficient time to understand the results and press release, then we will be able to ask the questions, sir.

- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**

- I am absolutely with you, As I said it is as it is becoming a too long a day for me start from audit committee, then board meeting and now on the call so I am absolutely fine with that.

- **Mr. A.M. Lodha – Sanmati Consultant**

- Sir, so many company results, so many con calls we are attending but no company within just half an hour of the results, the results come at quarter to 4 o'clock or 4 o'clock or 4.30 is the con call. Last time if you recall, sir, I remember, sir, you had to defer the conference by half an hour, last con call was deferred by half an hour.

- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**

- Can I suggest something in the interest of time for everybody, if you have a question please ask or else why don't you call me tomorrow. If you have a question, in the interest of time please ask, your point is well taken, otherwise you please study and call me tomorrow and I will answer all your questions.

- **Mr. A.M. Lodha – Sanmati Consultants**

- Okay, sir, I have got two questions, and number one is pertaining to interest. In last year it was 87 crores it has gone to 147 crores this quarter. So, sir, how much foreign exchange loss is included in this 147 crores, can you tell me, sir.

- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**

- See, I have already told you it may not be possible for me to actually pinpoint the foreign exchange loss because in Q4 it was, dollar was Rs. 65, it has gone up to now Rs. 68, when we ended the quarter, 68.5, and 87 to 148 is also on account of the turnover going from 1500 to 2300 because please appreciate I have explained working capital interest has increased post ENP now there is no TCST etc., which is available, everything is funded. So some interest increase on account of increased business activity and the dollar impact going from 65 to 68, combined in PAT is your finance cost has gone up to 148 crores.

- **Mr. A.M. Lodha – Sanmati Consultant**

- Okay, sir. Second question is regarding to your subsidiary JITF, there is a note on the bottom of the result that we could not understand properly. Sir, can you put some light on this, not Mewad and results.

- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**
- Okay, please tell me which note you want to me explain I will explain because there are....
- **Mr. A.M. Lodha – Sanmati Consultant**
- Sir, subsidiary, you have got the two entry, Mewad and...
- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**
- Okay, now as you know all the other subsidiaries and businesses of Jindal SAW which were non-core businesses have been demerged and moved out. We have just kept one business which is the inland water business because there again the intention not to carry this business any further, therefore we got this business just there. Now we are in the final stages of arbitration with NTPC and KOPP. In NTPC arbitration we have already received two interim awards, one for 157 crore and another for 197 crores. The final award of the NTPC arbitration is likely to come by September or October 2018. So hopefully when we are meeting next for this conference call we would have received the arbitration award from NTPC, based on all indications, we are hopeful of an encouraging award. And that is what Note 1 of the result kind of covers which gives you the details, etc., of the award that we have received. But next time when we meet or when we come on the call, hopefully we would have the arbitration award in our hand.
- **Mr. A.M. Lodha – Sanmati Consultant**
- Thank you, sir. That's all from my side, thank you.
- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**
- Thank you.
- **Moderator**
- Thank you. We have the next question from the line of Vikram Sharma of Niveshaay. Please go ahead.
- **Mr. Vikram Sharma - Niveshaay**
- Hello. Sir, what is total sharing value of investment and loan advancement in Jindal ITF?
- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**

- It is explained, about 1000 crores, 1067 crores is the total exposure that Jindal SAW has in JITF which is where we have this arbitration.

- **Mr. Vikram Sharma – Niveshaay**

- Okay, my second question is for SAW pipe, there is order book for SAW pipe near 1 lakh or 1.5 lakh tons, do you expect to receive further more orders in near term?

- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**

- Yes, we have, in fact we have got more orders very recently, we got significant orders from the international market as well. So our large dia both LSaw and HSaw put together we are close to 5 lakh tons and it is likely to improve. And we are expecting a lot more orders especially the HSaw business on account of these water projects which are coming in the market.

- **Mr. Vikram Sharma – Niveshaay**

- Okay, and sir, another question is what is expected among the capital expenditure for the steel plant in Bhilwara, any idea for that.

- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**

- At present we have not taken a final decision as yet to put the steel plant at Bhilwara or to still put it on hold. I must reiterate I have said it many times, the steel plant makes a lot of sense for both the pallet plant going forward integrated to the steel plant as well as it will act as a backward integration for our Nasik facility because the intention is to put a long product steel plant, mini steel plant there. So actually if we are able to put the steel plant it would integrate our Bhilwara with our Nasik and Nagothane facility. The capacities etc., would also kind of give us full back up for Nasik. So it makes a lot of sense. But as we have been saying unless we get a full comfort of the balance sheet of Jindal SAW in terms of capital structure being completely under control, and the steel demand supply, or the steel market situation being under control, we would not start a steel plant. And at present 2-3 things have happened, (a) the steel industry as you know has improved which is a positive sign and we should look at it closely and (b) The standalone as well as consolidated debt for Jindal SAW on the balance sheet has also come under control. But having said that we are still examining the proposal. We have not launched the project as yet.

- **Mr. Vikram Sharma - Niveshaay**

- Sir, another question is what is maintenance capex in pipelines.

- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**
- Maintenance capex for Jindal SAW as a whole if you take now we have got 4-5 units, in a year if you take about 150 crores or in that vicinity, you should be okay.
- **Mr. Vikram Sharma – Niveshaay**
- Okay, sir, thank you.
- **Moderator**
- Thank you. The next question from the line of Vikas Singh of B&K Securities. Please go ahead.
- **Mr. Vikas Singh – B&K Securities**
- Good evening, sir, hello.
- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**
- Yeah, good evening.
- **Mr. Vikas Singh – B&K Securities**
- Sir, I just want to understand that you have made a remark that our margins are going to improve, so are we thinking of the margins improvement from Q2 onwards or it is just a general remark that overall YoY the margins should be better.
- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**
- No, I am saying if you look at my first quarter, the EBITDA to sales margin is about 15%, we expect that to improve as we move further during this year.
- **Mr. Vikas Singh – B&K Securities**
- Sir, what kind of margin targets we are actually assuming for the year?
- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**
- I can't give you a margin target, my dear.
- **Mr. Vikas Singh – B&K Securities.**
- **Mr. Vikas Singh – B&K Securities**

- Fine, fine, secondly, right now if I can look at my SAW pipe order book, then roughly 3.85 from LSaw and balance is from HSaw, so how do we see, since HSaw proportion is going to increase in the future then how do you see this impacting the overall margin profiles because traditionally we believe that LSaw is a better margin order.

- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**

- You are right, see, LSaw is a better margin order. 3.86 is primarily because we have got some good orders from GAIL, etc. But those orders are not executed as yet, so you must distinguish this and you must understand that even if we have an order book of 3.86 from LSaw which is typically a higher margin order than the HSaw, the contract are yet to get executed. So once they get executed it will impact the margins for the revenue. Second is HSaw, again when there is a lot of demand we expect HSaw margin to always remain lower than the LSaw margin, but by self it is likely to improve because the overall tonnage will go up, so the productivity will go up, economies of scale will kick in and in terms of demand supply also there may be some correction because some of the players are out of the market. So overall you are right, LSaw margin is higher than HSaw, will remain that way but we expect margins to improve because some of the GAIL orders would now come under execution. And in HSaw we expect economies of scale to kick in.

- **Mr. Vikas Singh – B&K Securities.**

- Okay, sir. In our stainless steel segment which is newly we commissioned, just wanted to understand what kind of market opportunity we are looking in terms of approvals expected through various companies.

- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**

- Stainless as I mentioned to you is one of our significant growth areas. We have made a lot of progress in terms of approvals we have got all the ISO etc. approvals in place, which is the quality upgradation are in place. Some of the major market player approval in terms of EIL which is a very significant one we have got that. There are a few international benchmarks which are very important, we have got that. So the stainless business now you can say that we are well entrenched to give a head-on competition with the established market leaders over the years. This year we expect a significant tonnage and you would see that next year onwards we should be among the top few in the country in terms of the leadership position. So we are progressing very well on the stainless steel front.

- **Mr. Vikas Singh – B&K Securities**

- And sir,...

- **Moderator**
- This is the operator, apologies, sir, I would request you to come back in the queue.
- **Mr. Vikas Singh – B&K Securities**
- I have a last clarification question on this, if I may.
- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**
- Yeah, please.
- **Mr. Vikas Singh – B&K Securities**
- Sir, in terms of this so basically our DI competition in terms of capturing the market share our strategy is largely based on currently more on a volume execution or we would likely to maintain some kind of margins.
- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**
- See this is all cherry picking. See they are a volume player and they have to protect their market. We are penetrating their market and we are going for cherry picking which is the high end margin business. Value add is now one of the stated objectives for the entire Jindal SAW Group, every segment of the business that we are looking at we are looking for value addition.
- **Mr. Vikas Singh – B&K Securities**
- Fine, sir, I have more questions but I will come back in the queue, thank you for taking my questions.
- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**
- Thank you.
- **Moderator**
- We have the next question from the line of Saket Kapoor from Kapoor & Company. Please go ahead.
- **Mr. Saket Kapoor – Kapoor & Company**
- Good evening, friends, and good set of numbers, sir, this time.
- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**

- Yeah, yeah.

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

- Sir, you were talking about value addition if you could dwell on the point something more, sir, what do you mean by that and what kind of EBITDA margins do we expect on account of these value additions coming into the core for Jindal going forward, sir.

- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**

- Sure, in every product line if you see we are looking for coming up with or addressing the highest value segment. Let us start with stainless steel. In stainless steel we are looking for seamless and that too the super duplex and those categories which fetch you the highest NSR, NSR is net sales realization per ton, and it gives you the highest margin. In seamless we are putting up a mill where we would be able to produce 16 inch so we will have a complete product range because till now we were restricted to 8 inches. But during this year before December in fact we should be in full production to go upto 16 inches, so that would give us a full range plus because of the superiority of PQF and the piercing we are able to address the bearing market. In fact today we are the number one suppliers to the bearing market. Look at SKF, look at FAG any of these, there again we are looking at 3091, the alloys, we are looking at the heat exchanger market rather than just being traditional run-of-the-mill. In DI we have developed double chamber pipes, we are in the process of developing ZMU which is the concrete coated pipes which are you know, especially suited for trench applications. So we have done insulated pipes, we are improving our coating and everything again to address the higher value added segment. In fact the large dia pipes we have already developed cladpipes. At this point of time trials are going on, there are only few players in the world who can manufacture clad pipes and in large dia we are moving into that direction as well. Pellet as already I explained to you that the moment we are or if and when we start the steel plant it would be a forward integration for our pellet plant and backward integration for our Nasik and Nagothane facility. So in every of these businesses that we have the effort is to move into the high value added segment in terms of quality product, addressing the, we also are the only ones in the large diameter pipe segment today who can do concrete coating, concrete wet coating etc. So these are the areas which actually give you a better margin and a dominant position when it comes to the market.

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

- What kind of additional margins are you talking, additional 15-16% you told for this year. What will the additional margin now be?

- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**

- Okay, let's take an example from last year's Jindal SAW results, my first quarter EBITDA to sales margin was 15%. We ended Q4 at 17.5%, for the full year it was 16.75. So even at 2 to 3% improvement in our EBITDA to sales margin on account of these can give you a significant improvement in terms of the numbers.

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

- That is what we should anticipate, something in the vicinity of 18%, that should be the end result. Can you verify once again that this year we are not going to have any hiccup or no red ink on account of the consolidation of accounts that will happen post March-November.

- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**

- Let me put, when you say no red ink, because this time when we have a consolidation of results, what I would be happy to confirm to you that it is just the residual JITF which is the JOLS which is the NTPC and KOPT business, Abu Dhabi and the coating business in US. These are the only three major significant subsidiaries which we have consolidated, and that is all that we will have, and we are not adding any subsidiaries to Jindal SAW for sure.

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

- Right, but these three will add to the bottom line or take away from the bottom line as they have done last year. Our PAT numbers are 500 crores.

- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**

- All three businesses are going to add to the EBITDA for sure. We have one more business that I told you directly indirectly the Italy part which we are kind of working to make that breakeven. But these three businesses are definitely going to add, they are not going to take anything away from the EBITDA of Jindal SAW standalone.

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

- One more question, sir, quarter 2 is generally lower due to the monsoon advent, how are the deliverables planned, and how has the July month gone for us in between.

- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**

- July month has gone very well except for the truck strike, the truck strike impacted us for about a week to 10 days, hopefully they will do a patch up in the next two months that we have. As we look at the Q2 looks stable, but the yearend definitely looks very

good. So as you have seen in Q2 there was a small hiccup last year, in Q2 we had a GST roll out impact and all that but still we saw that by the yearend we did a patch up. So Q2 results because of the truck impact which lasted for about a week-10 days and it has just ended and a little bit of monsoon impact, we have to see how it pans out, either it will stay flat as Q1. But yearend we definitely expect the momentum to continue as we have very healthy.

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

- Right, sir. Debt level if you could throw some light, what is our net debt as of June.

- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**

- Net debt I have told you, company on a standalone basis we have a term debt of close to 2000 crores, working capital debt of 2200 crores which makes a total debt of 4200 to 4300 crores on a standalone basis. If you add on the consolidated debt that would go upto 5000 crores, so 4400 crore debt on a 350 crore of EBITDA in Q1 should give you a lot of comfort that now the debt to EBITDA ratio which is the key ratio for kind of safety and protection for debt is within a reasonable band now.

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

- Right, and what is the prepayment, sir, how much money we have to return?

- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**

- The total repayment obligation is less than 250 crores.

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

- Then what is the utilisation, how are we raising our cash for this year, we will be getting a lot of cash.

- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**

- Our effort would be to reduce, see again let me not answer that question straight to you just now because there is one more very lumpy chunk which is likely to come which is the arbitration award. So once all that comes then we will do our cash planning and we will see what is the best way to deploy our cash flow. But you are right at this point of time, Jindal SAW is now beginning to show surplus cash and we have to see what is the best way to use that. So I would reserve that question for the next call because by then I would have the arbitration award in my hand.

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

- Sir, investor....

- **Moderator**

- Sir....

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

- Yes, I am concluding, I have no question, just my remark and then conclude. Sir, investor confidence has taken a jolt if you take post the March number even the market have corrected, but the confidence building exercise is now due from the management part, sir. So what steps are you taking going forward that is going to rebuild the investor confidence in the company because Jindal as a group, as a backing of the promoter deserves much higher valuation than compared to your other peers, sir. What steps are you taking to regain confidence, sir?

- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**

- First I would be very, very keen, I would be, I repeat, I would be very keen to hear more from the investor fraternity when they say that the investor confidence has been shaken. Because I would need to know what have we done or what have we not done in the last maybe 2 to 3 years to deserve this kind of a comment that the investor confidence has been shaken. Because as I recall in the last three to four years everything that ought to have been done has been done or those steps are being taken, and that's the feedback I get from the bank that's the feedback I get from the rating agencies. You know we have got rating upgrades, we still maintain a positive outlook and hopefully think, so first thing I would be very keen and this is a message to all our listeners that I would be very keen to listen more from you which either you can drop in by way of email or maybe you can call my colleague, Vinay, or you can let me know. And also if you could let me know what else do you expect, or what are the expectations from us that because (a) we have been transparent, (b) we have worked very diligently to improve the fundamentals of the company, we have worked very tenaciously and as fast as we can to remove all the legacy issues, or the overhang of the joint venture, etc. If you see the governance standards of the company is absolutely at the peak. In fact, we have internal auditor and external auditor combination of Deloitte and PWC which again we got it this year. So we are doing in our opinion everything that we can to improve the fundamentals or to consolidate the strength and get momentum behind the company. So anything else I would be as I said very, very keen to hear more from all of you.

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

- Right, sir, market is not recognizing it sir, that is the problem, but let's see, sir, only time will decide how things go forward.

- **Moderator**

- Thank you, we have our next question from the line of Pratiksha Bastari of Equitas Investments. Please go ahead.

- **Ms. Pratiksha Bastari – Equitas Investments**

- Good evening, sir, I wanted to know how much do we plan to reduce our debt by FY'19?

- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**

- Madam, I answered this question before that, in terms of our term debt the total repayment is to the extent of only 250 crores or so, the working capital debt is purely a business related issue, more so now because of the post PNB scenario. So the debt, yearend debt you can expect would be in the range of 3800 to 4200 crores.

- **Ms. Pratiksha Bastari – Equitas Investments**

- This is for the standalone or the consol?

- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**

- I am talking about the standalone. The consol debt you can take it that it should be less than 5000 but again it is important for all of you to understand even though the consol debt shows on the Jindal SAW balance sheet, last three years or four years not a penny of Jindal SAW cash has gone to service any of the subsidiary debt. So keep an eye on the consol debt for sure but also keep this qualification kind of a financial discipline being maintained by Jindal SAW at the back of your mind.

- **Ms. Pratiksha Bastari – Equitas Investments**

- And sir, do we have any exports to the US which is going to be impacted because of the duties levied?

- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**

- No, as you know US is too far in terms of the freight outward component and our large diameter business as well as DI business, we do not attend to the US market. Plus as you also know that we have facilities in US which has been re-subsidized from here. So they cater to the US market, the local facilities and because of these duties which has

been imposed by US on the imports from India it is not impacting us in a significant manner. It would have a little impact on our seamless business, but that's a very small impact which would get more than compensated by the good market that we are seeing in the MENA regions. So we have already made that correction that our entire export allocation that we had in the seamless business now we are tuning it more towards MENA region, very little towards the US side. So to answer your question, some administration announcement of those duty levels would not have any significant impact on Jindal SAW operation in India.

- **Ms. Pratiksha Bastari – Equitas Investments**

- And, sir, would you give us the EBITDA per ton for different categories.

- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**

- No, madam, we do not share segment wise EBITDA per ton because that is one of the very, very competitive sensitive information and that's one of the unique features of Jindal SAW because we have these multi divisions by design just to make sure that we maintain our robust vision so those numbers are not in the public domain anywhere.

- **Ms. Pratiksha Bastari – Equitas Investments**

- Okay, and what would be the capacity utilization in the segment?

- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**

- In DI we would probably cross about 4,50,000, in seamless we would be close to 160-170, dia we would be upward of 5 to 6 lakhs and in pellets we would be upward of 1.3 million that's about 13 lakhs. This is broadly what we expect the yearend based on the current order book that we have. But please appreciate these are forward looking estimates and they are based on our current best ways to look at where we can see from here.

- **Ms. Pratiksha Bastari – Equitas Investments**

- Okay. And so the pellet plant has restarted because it stopped for maintenance.

- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**

- No, no, yeah, in between because that's a routine, that's a routine maintenance which we had to take a small shutdown but that's not a problem at all, it is working well.

- **Ms. Pratiksha Bastari – Equitas Investments**

- Okay, thank you so much.
- **Moderator**
- Thank you. We have the next question from the line of Deepak Poddar from Sapphire Capital. Please go ahead.
- **Mr. Deepak Poddar – Sapphire Capital**
- Yeah, thank you very much, sir. Sir, in your opening remark you have mentioned that we are on track to kind of continue the kind of growth that we have seen in first quarter. So did I understand incorrectly, that is exactly what you mean that 50% growth that we have witnessed, that can continue.
- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**
- No, no, would you please repeat that?
- **Mr. Deepak Poddar – Sapphire Capital**
- Yeah, so I was, hello. So I was just trying to understand that in your opening remarks you have mentioned that we are on track with the kind of growth that we have seen in the first quarter to continue. So in the first quarter itself we have seen a growth of about more than 50%, right. So is that the trend that we are going forward also we are kind of anticipating?
- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**
- No, there is a guidance which is out in the market with respect to our plan for the year and how we are tracking. We are tracking that, let me then put that correction, if as I said in the first quarter we have show a 65% growth, please don't take it that you take my last year 7500 top line and multiply it by a 55% growth and you will arrive at some 11,000 or 12,000 crores. That's not what we are saying, we are saying, there is a guidance in the market about our top line growth, about our EBITDA growth, about our profitability growth and the first quarter results are in line with those where we would definitely meet our yearend targets that there are in the public domain or that are there in the guidance that have been provided by our team.
- **Mr. Deepak Poddar – Sapphire Capital**
- Okay, sir, can you just repeat the guidance if you don't mind.
- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**

- We have given a guidance that we should have a top line of upward of 8500 with an EBITDA of upward of 1350, these are the two major numbers that we have.

- **Mr. Deepak Poddar – Sapphire Capital**

- And these numbers are on standalone.

- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**

- Sorry? These are all standalone numbers, and we should definitely see these numbers based on where we look at today.

- **Mr. Deepak Poddar – Sapphire Capital**

- Sure, thank you very much, that's it from my side, and wish you all the best.

- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**

- Thank you.

- **Moderator**

- Thank you. The next question is from the line of Mayank Sharma from Strides Shasun. Please go ahead.

- **Mr. Mayank Sharma – Strides Shasun**

- Sir, good afternoon, thank you for taking my question. I would just like to say that you have a pretty solid business considering various plants and the ability to even deepen the portfolio, I think you have a fabulous asset. And compared to 2015, 2018 looks very different because you went through a very tough period in which you got rid of a company which was a financial drain I mean trouble is easier to get in and tougher to get out of. And I appreciate that as an investor I have seen the evolution. My only point is about capital allocation, but right now you are in a very sweet spot. I mean almost everything is working in your favour, be it oil prices, be it steel prices, I mean the ability to pass on these prices is also something now, isn't it best to write in the balance sheet faster and focus more on the financial aspects.

- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**

- See, thank you very much for all those compliments, and that is where sometimes we wonder that what else we should do, or what else we should have done which we are not. Because when you are saying lighten the balance sheet further, once we get the NTPC awards, etc., then the loans and advances side would get corrected. See the

investment side of Jindal SAW balance sheet has largely been corrected on account of those demergers, it is completed, it is done. The loans and advance side where we are seeing and as per the Note there is about 1000 crores sitting would definitely get lightened the moment we are able to see the NTPC award whenever it comes. And it should come now as we expect sometime around September or October latest. Now, having done that, when you see now term loan of less than 2,000 crores for a company with an asset base of close to 6 to 7,000 crores with so many facilities and an EBITDA of upward of 1200, even if you take my last year's EBITDA, we were on full year EBITDA of 1260. So, now if you take a 1260 crores of EBITDA term loan, standalone term loan of 2,000 crores what, how much more lighter do you think is reasonable. It is not even 2 times, that debt to EBITDA ratio is not even two times.

- **Mr. Mayank Sharma – Strides Shasun**

- I want to...

- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**

- As far as now let me also correct and let me also then mention a few important things that all of you must know. The business nature is such for Jindal SAW, all my businesses, that is always ride on the back of trade finance. It's not that, so, it always rides on the back of trade finance. Every time there is a steel requirement I have no option but to open a letter of credit, I have no option but to give long term at least 60 to 90 days credit to all my PSU banks. But having said that analyse my balance sheet for the last 2 to 3 years, not a penny has been written off because of the inventory write off or bad debts. So, we are very secure, we do very secure business both in terms of raw material as well as. So, I do have a working capital which is 2,500 crores. But working capital debt in Jindal SAW is, has always been self- liquidating in terms of no write off on receivables, no write off on inventory. So, I, on one side hear what you are saying that can we make the balance sheet a little lighter. And as I can see that yes, with 1000 crores of investment of JITF or the NTPC business that would definitely happen. What, what more can we do, as I said, I would be very, very delighted, I would be very eager and I would be happy to hear more from the investor fraternity because this is puzzling us a little bit of as well. But now having done all the cleanup, having done, still if I hear from the investors say that the confidence is still not there or you expect more. Tell me what more do you want and probably we will see how that we can address.

- **Mr. Mayank Sharma – Strides Shasun**

- Sir, sir, my point is not about you know, lack of confidence, I have complete confidence, I have seen how you have taken the company from 2015 to 2018. My point was that I have this figure in my head that the forward integration of pellets to the steel

plant which would require a certain amount of capital and if you load more debt, moving forward maybe 9 months down the line or 12 months down the line. I mean that is what I have in mind when I say lighten the balance sheet because I think that will fructify in the future. Because it is very logical to forward integrate to pellet and I mean it is almost, I mean anybody else could do it. But the only problem you were facing till now, you were trying to repair your balance sheet and bring the company on a stronger footing. So, that is only the point that I had in mind. But thank you for telling about rates and I did not have this in mind. Sir, the next question I have...

- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**

- And also on the steel plant I would encourage again any one of you and all of you, please, come to my office, my people from project department, treasury department would actually sit with you and they will explain to you the whole economics. The benefits that we see, why we see, why we are holding and as I said, I would be absolutely delighted to take any feedback of or like you said any suggestions that all of you may have, which would help us govern and manage this company better.

- **Mr. Mayank Sharma – Strides Shasun**

- Sir, I have one, two more questions. One was the EBITDA per ton 9,000 crore. 9,000 rupees a ton I think for FY'18, are we going to be between 9,000 to 10,000 for FY'19.

- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**

- Should be.

- **Mr. Mayank Sharma – Strides Shasun**

- Okay. And pellets would be between 1800 and 2500.

- **Mr. Niraj Kumar – CEO and Director**

- Should be.

- **Mr. Mayank Sharma – Strides Shasun**

- Okay. And sir, I just, you just said that the guidance for 5 between 5 and 6 lakhs. I think in the quarter Q1 you have done around 1.7.

- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**

- I am. Hold, hold back, hold. I didn't say between 5 and 6. I said upward of 5 lakhs.

- **Mr. Mayank Sharma – Strides Shasun**

- Okay, okay, okay. Thank you so much, sir. Thank you so much.

- **Moderator**

- Thank you. Ladies and gentlemen that was our last question. I now hand back the floor to the management for the closing comments.

- **Mr. Neeraj Kumar – Group CEO and Director, Jindal SAW Limited**

- I need to thank the entire investor fraternity and the people who have taken time to come on the call. And as I said in my opening remarks that we believe that we have put the company on a strong footing and there is enough momentum and the visibility to move this forward but one thing that I definitely wish to specifically thank the investor community today for bringing this out clearly that probably we are not getting a very fair treatment from the market. And I don't blame the market for that. I am sure there is some gap either in our communication or in our way or maybe there is something that they expect and we are not paying adequate attention to. And for that I am going to appeal to each one of you. We have a website, we have an office, which is here and we welcome anyone of you to please send us your feedback, send us your suggestions, send us your reactions and tell us what are your expectations. So that we can definitely carry out the midterm course correction we have to or if we have to communicate and if there is gap in communication, we would be very happy to again fill that because as you know, as Jindal SAW we are kind of a little, we don't have a product where we are into advertising. And we are little under the radar kind of an organisation that what is our DNA, we believe in fundamentals but we definitely wish to hear any feedback that we get from stakeholders who are there for us and who you know, have been with us throughout. So with those words, I wish to thank each one of you. And hopefully we will see you with equally good result in the next quarter. Thank you, bye.

- **Moderator**

- Thank you on behalf of Prabhudas Lilladher Pvt. Ltd. I conclude this conference. Thank you for joining us and you may now disconnect your lines.