JINDAL STAINLESS

May 12, 2022

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Subject: Transcript of Earning Call held on 6th May, 2022 at 04:00 P.M.

Dear Sirs,

This is further to our letter dated 2nd May, 2022 w.r.t the Q4 & FY 22 Earning Call intimation for the financial results with the investors and analysts.

In terms of Regulation 30 read with Schedule III of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith the transcript of the above said Earning Call. The same is also being uploaded on the website of the Company at the following web link:

https://www.jshlstainless.com/corporate-announcements#corporate-announcements

You are requested to take the above information on record.

Thanking you,

Yours Faithfully,
For **Jindal Stainless (Hisar) Limited**

JINDAL STAINLESS (HISAR) LIMITED

(Bhartendu Harit)
Company Secretary

Enc. as above

"Jindal Stainless Limited and Jindal Stainless (Hisar) Limited Q4 FY22 Earnings Conference Call"

May 6, 2022

MANAGEMENT:	**MR. ABHYUDAY JINDAL – MANAGING DIRECTOR, JSL & JSHL** **MR. ANURAG MANTRI – GROUP CHIEF FINANCIAL OFFICER, JINDAL STAINLESS** **MR. JAGMOHAN SOOD – WHOLE-TIME DIRECTOR, JINDAL STAINLESS** **MR. RAMNIK GUPTA – CHIEF FINANCIAL OFFICER, JSHL** **MR. GOUTAM CHAKRABORTY – HEAD IR** **MS. SHREYA SHARMA – IR TEAM**

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY22 Earnings Conference Call of Jindal Stainless Limited and Jindal Stainless (Hisar) Limited. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Chandak. Thank you, and over to you, sir.

Vishal Chandak: Thank you very much. Good afternoon, ladies and gentlemen, and welcome to the fourth quarter earnings call for Jindal Stainless and Jindal Stainless (Hisar).

I would like to thank the Management Team of Jindal Stainless for providing this opportunity to host them for the call.

From the management side, we have Mr. Abhyuday Jindal – Managing Director, JSL and JSHL; Mr. Anurag Mantri – Group CFO, Jindal Stainless; Mr. Jagmohan Sood – the Whole-Time Director at Jindal Stainless (Hisar); Mr. Ramnik Gupta – CFO of JSHL; Mr. Goutam Chakraborty and Ms. Shreya Sharma from the IR team at JSL and JSHL.

So, without much ado, I would like to hand over the baton to Mr. Goutam Chakraborty for his opening remarks. Over to you, Goutam.

Goutam Chakraborty: Thanks, Vishal, and welcome, everyone. We'll begin this call with the brief opening remarks and following which we'll be having the forum open for an interactive question-and-answer session. But before we start, I would like to state that some of the statements made in today's call may be forward-looking in nature, and the disclaimer in this regard is available in our results presentation that was shared with you earlier.

I would now like to hand over to the floor to Mr. Abhyuday Jindal for his opening remarks.

Abhyuday Jindal: Thank you, Goutam, and good evening to everybody. I hope all of you are doing well with your family and friends. On behalf of the management team, I welcome you to the earnings call for Q4 and financial year fiscal year 2022 of Jindal Stainless Limited and Jindal Stainless (Hisar) Limited.

First, I would like to share the key highlights of Q4 FY22 and the full year following which Anurag will take you through our operational and financial performance. Stainless steel prices globally and in India remained firm in Q4 FY22, with improvement seen throughout the financial year 2022, backed by strong demand.

Stainless steel production in calendar year '21 grew by an impressive 11% year-on-year to 56.2 million tons. The underlying raw material prices remained extremely volatile during the quarter.

Nickel prices went up by 33% and ferrochrome increased by 17% in Q4 FY22 on a year-on-year basis.

In this backdrop, I am happy to share that our robust performance continues in Q4 as well on the back of adaptive strategies in supply chain and product basket management. Despite volatility and global disruption in raw material supply and logistics, JSL exports doubled to 32% in Q4 FY22 on a year-on-year basis, while export proportion from JSHL more than doubled to 18% in Q4 FY22 from 8% in Q4 FY21.

Key domestic sectors like elevators, escalators, railways, which includes wagons, coaches, metros continue to register a steady demand. Under our local to global initiative, we are in the process of providing customized product solutions for international operations for select domestic customers having a global presence.

We have also supplied various critical grades like super-duplex and cobalt restricted stainless-steel for various nuclear applications and key fertilizer projects. Sales volume in the Specialty Products division rose by 32% this year. And continuing with this trend, we have achieved highest ever total sales in the blade, steel and precision strip segment during Q4 FY22. In this context, I'm happy to share with you that the first stainless-steel foot-over-bridge in the country were commissioned in Naupada, Andhra Pradesh. Other than being key raw material supplier, JSL also played a major role in developing the ecosystem.

Another major development, JSHL became the first integrated stainless-steel manufacturing company in India to get certified with AS9100D certification, a quality management system for aviation, state and defense organizations. The certification validates JSHL's competence to constantly meet high stringent standards of the aerospace industry.

We are happy that our shareholders and creditors have approved the scheme of arrangement for the merger of JSHL with JSL by an overwhelming majority. This is a testimony to the confidence that the merger is value accretive for all stakeholders of both the companies.

With this positive movement, we now expect other relevant processes to be complete in due time in the next 6 to 7 months. On the import front, subsidized imports from China and Indonesia continued. As a result, imports from these 2 countries were estimated to have risen by 147% and 288%, respectively, in FY22 over FY '21.

This also resulted in the share of imports rising to 36% of demand in Q4 FY22 as compared to 24% in Q4 FY21. I'm happy to inform you that despite the Russia-Ukraine conflict, we have managed to fulfill our commitments without canceling any order. Also sensing the factor of Ukraine war and supply disruption in EU, we continuously focus on the U.S. market and did highest ever shipments. Our exports to U.S. increased 3x during FY22. As I told you last time, we are strategically focused on reducing our carbon footprint. Our plan for exploring renewable energy and low carbon energy transition are on track. We are proactively switching from thermal to renewable energy infrastructure at our plants and are working toward our goal of net zero carbon emissions by 2050. In our continuous efforts to create shareholder value, the Board has approved modification in the existing dividend policy of the company that inter-alia efforts will be made to target dividend payout up to 20% of tax of the company on a progressive basis in future.

With this, I would like to hand over to Anurag to discuss operational and financial performances. Thank you.

Anurag Mantri: Thank you, Abhyuday. Good evening, everyone, and a warm welcome on this call today. We have shared our investor presentation with the stock exchanges, and today's call and discussions will be around on the same line. Operating performance has been robust despite many challenges, including high volatility in raw material prices, geopolitical tensions and supply chain issues.

Key segments such as railway coaches, wagons, metro and infrastructure have been doing well for us. As Abhyuday mentioned, especially product division continued to achieve new highs. Our strategic decision to focus on export sales and strengthen its niche value-added product portfolio enabled us to steer through the certain challenging segment in the domestic market and double our export proportions.

On a combined entity basis, exports stood at 21% of total sales in FY22 as against 15% in FY21. Let us look at the key operational and financial highlights of the quarter. On a year-on-year basis, the pro forma combined revenue and EBITDA of Q4 FY22 rose by 56% and 47%, respectively, to Rs. 9,724 crores and Rs. 1,296 crores. The PAT of the same period more than doubled to Rs. 1,022 crores. On a full year basis, the performance stand-alone combined revenue increased by 70% over FY21 to Rs. 32,620 crores. EBITDA almost doubled up to Rs. 4,740 crores while PAT grew more than Rs. 3x to Rs. 2,949 crores.

Along with the parent company, performance of the operating subsidiaries also continued to be strong. The combined EBITDA grew 88% on a year-on-year basis to Rs. 143 crores in Q4 of FY22. For the full year FY22, the combined EBITDA of the operating subsidiaries rose 2.5x over previous year to Rs. 418 crores.

Raw material prices remained volatile throughout the quarter as we have seen some extreme fluctuations in the month of March. The average prices of LME nickel in Q4 FY22 rose by 33% over Q3 FY22. While domestic ferrochrome average prices in Q4 FY22 fell by 6% over Q3 FY22. Our focused risk management practices helped us to mitigate the underlying commodity risk to a large extent and continue to have steady margins.

At the end of FY22, our pro forma combined entity net debt stood at RS. 3,162 crores, which is down by 33% as against March '21 level. Leverage ratio has been consistently improving. The pro forma debt equity and debt to EBITDA ratio stood at 0.3 and 0.7, respectively.

With this all in our borrowing rates, the combined interest cost declined by 33% and 47% in Q4 and FY22 to Rs. 74 crores and Rs. 377 crores, respectively. Quarter full year FY22, the interest cost stood at just 1% of the combined revenue. Prudent financial management with focus on balance sheet improvement will continue going forward. For both companies, credit rating for long-term facilities remain at AA minus while the short term at A1+, the highest rating has been maintained by both the companies.

With a strong growth business outlook, we expect further improvement in our long-term credit facilities rating. Maybe as you are aware, but I'm glad to let you know that JSHL has now become a part of the Nifty metal index in the month of March. As a company, we will continue to explore on new business opportunities while strengthening our existing base. We are confident that our robust product portfolio, along with strategic geographical presence, focus on capital allocation for balance sheet improvement and improving shareholder value will continue. Well, this brings to the end of my discussion. I would now request moderator to open the floor for the Q&A session.

Moderator: We will now begin the question-and-answer session. The first question comes from Amit Dixit with Edelweiss.

Amit Dixit: I have 2 questions. The first one is essentially on our sales mix. So, if I see, the domestic sales volume is down Y-o-Y. However, export sales have gone up 2x. Now it looks like that imports are taking away the incremental growth in the domestic market. Now we have also seen that progressively protectionist measures for stainless-steel industry are being diluted. So, how are you working with the government to ensure that our interests are protected? And in particular, we are coming up with new capacity. So, will the new capacity be directed towards only exports because domestic market looks quite capped at least as of now considering the influx of imports?

Abhyuday Jindal: So, yes, it's a continuous process with the government to keep showcasing that how much imports are coming in and how the industry is being hurt by it. So, just recently, Steel Minister and his full top senior team had visited our Jajpur plant, and there, we really in detail, discussed with them, and he has committed to take it up very strongly internally within their own systems. And we are constantly anyway approaching DRU and Finance Department that what it has done is really hurting the industry back. There is definitely some positive response. They are also aware of the fact that it is China that is the main importer into the country and we are supporting more Chinese companies.

So, they are cognizant of that fact, but will some immediate steps be taken, that I cannot commit. But the way the company is now working is that if there are some protectionist measures or not, we will still like to maintain our position, and we would still like to maintain our sort of average margin that we have been talking about and giving a commitment for. And to your second question, the second question was on exports. What was it, sorry, if you can repeat the second question?

Amit Dixit: The second part of the question was on essentially the capacity expansion we are coming up with. So, will it be directed towards exports majorly because domestic market looks quite capped in view of import influx.

Abhyuday Jindal: Maximum volume would still be consumed in the domestic market itself because we don't want to lose our market share that we have. But yes, the proportion of exports would be increasing when the capacity addition comes up.

Anurag Mantri: And Amit, going forward, domestic market also, as you have seen in last few years, the import competition is more on to the commoditized product range. But simultaneously, there is a little slow pace of the approval-based segment but that's also growing faster. So, as our capacity expansion also comes, our aim is that irrespective to the geographies and irrespective to the segment, how we actually penetrate these high-end segments, so that we'll continue. So, the domestic markets also are approval based and high-quality segments are also increasing their demand gradually.

Amit Dixit: The second question is essentially on JUSL blast furnace expansion, that is 2 MTPA. It is being reported that they are putting up 2 MTPA blast furnace. So, just wanted to understand the relative economics of producing stainless-steel with hot metal and mild steel scrap? And can you give us the comfort that JSL or JSHL will not support the CAPEX in any way through ICD or buying any equity stake directly as a company in JUSL?

Jagmohan Sood: So, I will take this question. This is Sood here. So, the first question is how this fits into this the hot metals, whether it is building into the holy scheme of things or not. So, just let me tell you that in stainless-steel, by and large, they consist of almost 70% to 85% of the iron component, that you know. And this iron component is being used from different sources, different variants. Sometimes it is scrap, sometimes it is combined with nickel. So, in different series, it is a different kind of a variant we are using. So, largely speaking, about 200 and 400 series of stainless-steel where it has been planned to be used, the raw materials which we are consuming is currently carbon steel scrap, okay? This carbon steel scrap always tends to have a parity with the hot metals. When this material, the raw material, in the form of hot metal turned into liquid steel when it is used as stainless-steel, it brings in a huge advantage in terms of number one, productivity; number two, the cost. Cost-wise, it is cheaper by almost Rs. 4,000 per ton. It gives that advantage in the cost.

So, using hot metals turned into liquid steel into the stainless-steel definitely brings in advantage in terms of cost. And second biggest advantage it brings in is the quality. This hot metal turned into liquid steel always have a very low phosphorous content and other trapped elements, which actually is better in terms of better quality, better properties in the end product, and this gives a huge advantage in terms of various applications where the stainless-steel is being used. This is how actually this happens.

Amit Dixit: And the second part of the question.

Anurag Mantri: Amit, I'll take the second part of the question. So, basically, as Mr. Sood mentioned, this is purely basically for focusing on the 400 Series and 200 Series where the nickel content is low, where it's always better to use. It's not always I would say, there are cost efficiencies which come from this.

So, from JSL perspective, there is no corporate guarantee, which has been given to JUSL, just let me clarify that thing for that. There's no obligations, which have been given. Also, we have a 26% stake in JUSL. So, corresponding to our requirement, we will have only that much of corresponding to our stake which matches with more or less what we are doing for 400 series and 200 series is close to 500,000 to 600,000 tons.

That is what our requirement from blast furnace moves. So, we will be only obliged to move out that much of part, and that is only limited to our 26% stake in JUSL. Otherwise, JUSL and JCL separately are getting merged. So, JUSL has excess hot strip mill capacity right now, which they have been also generating the carbon steel tolling revenue. JCL itself has generated good cash in the last 2 years because of good dream run. And also, they they will be funding through their own resources, which will be a combination of debt and equity primarily.

Amit Dixit: So, our contribution would be to the extent of 26% only, any financial contribution?

Anurag Mantri: Yes, that will be limited to only that part.

Amit Dixit: And equity part only. We won't be extending any intercorporate debt or something to support that?

Anurag Mantri: It will not be intercorporate debt like this. Means it will be like depending on their -- how they fund the overall pattern. Accordingly, that's why I'm saying overall their project with our requirement which is just 600,000, we'll all be contributing 26%.

Now on intercompany deposit, let me tell you this way. I think there are security deposits, which are there for the tolling arrangements which are actually already with us, but that is only for the commitment of these lines to us because they have been doing corporate carbon steel tolling also. So, prioritization has been given for JSL for that part. So, it's only to that extent, otherwise we'll not be putting any other large ICDs towards that.

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

Ritesh Shah: Sir, on operational performance, I specifically had a few questions pertaining to blast furnace. First is what is the rationale of having this incremental CAPEX at JUSL and why not at JSL? That is one. Secondly, what I picked up is you indicated that the usage will be only to the extent of 600 kp. What sort of economic benefit are we looking at it over here versus a potential CAPEX, if you can guide for some number? That was the first question, sir.

Anurag Mantri: So, I think, Ritesh, let me just understand. I think first question is why this CAPEX in JUSL and not in JSL, right?

Ritesh Shah: Yes, sir.

Anurag Mantri: Let me answer that question because as we said, when we looked at the smaller blast furnace putting in JSL was not getting any of the right optimization level because then it would have been not a right optimized CAPEX and the cost has gone to a much higher cost on to us as well as operational cost. That's the reason we thought that the optimized blast furnace can only be put up on the JUSL because that's the reason even JUSL decided because they as part of us, since we are increasing the capacity, they are anywhere aligning with there or increasing the hot strip mill capacity also simultaneously.

So, besides our requirement, then they get into their own carbon steel arrangement separately. So, that's the reason they are evaluating to put up an appropriate size blast furnace in JUSL. So, that's the reason smaller blast furnace doesn't make economic sense for JSL because our requirement for this type of blast furnace is largely for 400 series and partly for 200 series as Mr. Sood mentioned. 300 series is always better to be done through a nickel scrap root. So, that's question one.

Can you repeat the second question?

Ritesh Shah: Sir, just to continue with the first question, why not at JSL, given eventually the plan was for also JUSL to be merged into the parent entity. This might happen probably 3 years, 5 years down. Then this is something which is core to the operations and why not do it at the parent listed entity itself?

Anurag Mantri: Because the reason is that the hot strip mill is currently over at JUSL level. And eventually, you are right that at some point of time, you will have to integrate this hot strip mill in JSL, but at when they have their own right level of balance sheet ratios. Now if we do this another blast furnace CAPEX here and out of which we have an idle capacity of blast furnace, it will not be optimum size blast furnace for us.

So, we'll have to have then idle capacity of the blast furnace. We'll have to find another utilization of that. Integratedly without hot strip mill, we cannot have a carbon steel mill in that case. So, it will not be any economic sense for doing the large blast furnace in JSL at all. That's the reason JUSL is doing that CAPEX because they have their own one because JCL is getting one, they have a hot strip mill. That's the reason we can have a completely integrated play for the carbon steel of the 400 series sort of metals.

And we only use it on a tolling arrangement basis, on a needed basis without any large CAPEX commitment towards it, because right now, there's no -- we don't want to commit a large CAPEX in JSL.

Ritesh Shah: Sir, if I had to ask you what is the current capital employed for JUSL and what will be the approximate CAPEX that we are looking at over here? I'm just trying to understand if we had to merge both the entities, if we are looking at like 3 years, 4 years down, are we just not prolonging the time frame for the merger for the 2 entities? And again, from a conversion cost or from a related party transaction point of view, don't you think that the market won't probably look at it in a more comfortable way?

Anurag Mantri: So, I think let me tell you from the related party perspective, all these tolling arrangements were actually defined by the lenders, when we did the split. And it's completely on those lines and it's fully in the public domain, and every time we took transparently those approvals and consistent. So, we are not changing that. I think that's been consistent. In fact, to an extent even when you'll see now needing more tolling. So, they are incurring the CAPEX to increase their hot strip mill capacity.

So, it will be related party permissions are completely on arm's length and purely on that, in fact, they are doing outside carbon field tolling, so they had benchmarks against that, so we can always take a cognizance of that. So, from that perspective, we surely have some advantage from JUSL. There are benchmarks because they are doing not only for us, they are doing for other carbon steel players, separate tolling. So, that's the reason. I hope this answers your question.

Ritesh Shah: Sir, just last to conclude on the numbers. I think what I picked up is around Rs. 5,000 and 600 Kt of volumes which essentially means the cost savings that we are looking at is around Rs. 300 crores. Corresponding to this, what is the sort of CAPEX that we are looking at? Is it upwards of Rs. 2,500 crores, Rs. 3,000 crores? So, how should one look at the payback over here? And what would it mean on the ESG? Specifically, we are going for pig iron, I think won't it increase the Scope 1 and 2 emissions because we tend to look at the entity together.

Anurag Mantri: Ritesh, if I understand correctly, you are asking from JUSL economic perspective?

Ritesh Shah: Yes, sir. So, if the incremental CAPEX is say, Rs. 2,500 crores, Rs. 3,000 crores, what I could pick up from the data points, what you gave is Rs. 5,000 per ton and 600 Kt of volumes, that broadly sums up to nearly Rs. 300 crores. So, what is the sort of CAPEX that we are looking to chase this cost saving of R. 300 crores? That's the first question, sir.

Jagmohan Sood: Ritesh, let me answer this. The advantage what we are getting in stainless-steel is not what you are trying to tell. It is Rs. 4,000 on an average per ton of hot metal turned into liquid steel we are using into the stainless-steel, okay?

So, what actually Anurag had told, we are consuming up to 75% of this liquid carbon steel into stainless-steel. So, by this arrangement, on the current product mix, we are able to consume almost 0.6 million tons of hot metal turn into liquid steel. So, that brings in almost currently largely speaking, about Rs. 250 crores per annum.

That is the advantage we get in JSL. Over the current set of raw materials, what we are using in the form of scrap or logos, this is the advantage we get in JSL.

Ritesh Shah: Sure, sir. I just had one last question for Abhyuday, if it's possible. Sir, if you are deploying this sort of CAPEX, I don't know the number, Rs. 2,500 crores, Rs. 3,000 crores, won't it be fair for us to go and chase a nickel mine or a chrome ore mine somewhere else, wherein the cost advantage could probably be far more superior?

Abhyuday Jindal: So, Ritesh, that's a very good question and this was actually deliberated a lot and if you see that there is no chrome ore asset available within the country itself. That would have been definitely our priority. And we were in a big fight with Tata's also when these mines in Sukinda were being auctioned off, and we went up to a very high percentage level. But after the price that Tata took it, it became unviable for us also.

So, that was definitely our priority. Nickel mines, we had gone in the past, we had burnt our fingers. So, to really protect our EBITDA margins to really give more value addition to our shareholders, we felt that this was the best possible investment that we could do. And second thing that what is a big operating leverage that we have created is that to set up a stand-alone carbon steel project of this size on average it cost around Rs. 6,000 crores to Rs. 7,500 crores.

But our investment would not be more than Rs. 3,000 crores, less than Rs. 2,500 crores to create 2-million-ton blast furnace. So, that is why we said it's definitely a big investment.

Anurag Mantri: As I told you that JCL and JUSL have good cash accruals run because of not only us because JCL also has actually only 25% materials sold to us. Otherwise 75% goes to outside market. And because of the run they had in the past, so there is a good cash accrual in those 2 companies.

Abhyuday Jindal: So, per se, even from an M&A perspective, there was no stainless-steel assets that was really available or even a carbon steel asset also we looked at, but they were much bigger and much more expensive than what the company could take up. So, investing into our own setup, which is of clear benefit coming in stainless side, which is why this decision was taken. It was after a long-term deliberation only.

Anurag Mantri: And see, as I mentioned that we are not committing any large CAPEX in JSL for this purpose. That was the idea not to have because those are standalone companies, and they will have their own funding arrangements.

Ritesh Shah: So, sir, just to conclude, so we are looking at JUSL probably as a carbon steel entity. The listed entity will continue to be stainless-steel. And should one presume that ESG will actually take a backseat, even if we look at Scope 1 and 2 together?

Abhyuday Jindal: No, I wouldn't really say that it would take a backseat because we are making a, stainless-steel anyway has leg up over carbon steel, and we are investing heavily into ESG right now. It's not only from environment side. In ESG, there's also social and governance as well. So, you will see us investing heavily into all 3 aspects of the business.

Moderator: Next question is from Rajesh Majumdar with B&K Sec. Please go ahead, sir.

Rajesh Majumdar: So, sir, I actually had a couple of questions on the product mix and the margin side. One was that we have been talking a lot about the infrastructure series going up to a certain percentage level because of the greatest focus of the government. But if you look at the numbers in Q4, only 22% sales in the 400 series and exports have gone up substantially. Sir, is this something which is a little bit alarming in terms of our product mix change at the 400 level? That was my first question.

Anurag Mantri: Rajesh, your question is that 400 series has not moved much. Is this your question?

Rajesh Majumdar: That's right. Broadly that's the question.

Anurag Mantri: Overall, our focus continues to remain on the 400 series to improve the 400 series mix and which is gradually increased and with Auto, Railways and all, these are actually consuming that. In the intermittent, as we explained earlier, that idea is to get the best margin orders first and get it booked. So, some of the exports market where we do some of the high end to U.S. and Europe, that was also a large 300 series ordered, some of the orders were catered.

So, strategic direction is very clear that if you continue to grow 400 series, which is also matching with the way countries demand in, particularly our addressable market segments are growing.

But intermittently, obviously, we don't want to lose site on because we have a flexibility to well, any kind of product win for any segment. That's actually giving us the advantage to capture the best margin order at that particular point of time.

So, idea is not to just focus on a strategic direction, not to dilute all the margins and leave away some of the best margins orders at that particular point of time.

Abhyuday Jindal: And because of this nickel volatility that we are seeing, it's a natural extension that demand from consumer side in 400 series is also going to pick up. So, that way from Q4 last year to Q4 this year, definitely 400 series has increased by, I think, 5% to 6%. And naturally itself, you will see by natural color demand and the effort company is making that every quarter-on-quarter, 400 series would pick up.

Rajesh Majumdar: So, you're not seeing any kind of slowdown in terms of government spending because we've been hearing talk that non-fertilizers subsidies are going up and the inflation things, crude oil sitting up so high, government expenditure can be coming off slightly. Are you seeing any kind of trend which might prompt us to believe that over the next couple of quarters also exports will remain high?

Abhyuday Jindal: No, we are not seeing that. And one of the strengths of our organization is that we are very flexible and we're not dependent on any one particular segment to a very large extent. So, like we mentioned, domestic market being open to imports, we've increased our exports. Similarly, if government projects, some of them which at least in our case have not really been canceled or delayed, we can easily switch over to any other segment. So, that is one of USPs of our organization.

Rajesh Majumdar: Sir, I didn't hear anything from you in terms of guidance for EBITDA per ton? Is there any change or what are we likely to see in the next coming quarters?

Anurag Mantri: EBITDA per ton, Rajesh, long term, we have always been consistent in our guidance that at this stage until the time new expansions completely unfold, Rs. 18,000 to Rs. 20,000 is our average guidance. Right now, for the near term in quarter 1, I think it will be close to more at Rs. 22,000 to 24,000 is what we expect, though there are much of volatility in terms of power cost and all this thing. But with all these volatility, we are expecting to have that type of frontage in quarter 1 in near term.

Rajesh Majumdar: And the benefits from your chrome ore mines would be coming in this year? Can we expect that to come in because we've been talking about it?

Jagmohan Sood: I think the chrome ore operations will start within a year time. That is common boundary mining with Tata and BL, I'm talking about.

Rajesh Majumdar: So, from next year only?

Jagmohan Sood: Yes, almost next year.

Rajesh Majumdar: So, that will be in sync with our expansion world.

Jagmohan Sood: Yes.

Moderator: Our next question is from Abhijit Mitra with ICICI Securities. Please go ahead, sir.

Abhijit Mitra: So, I have a few questions on the JUSL CAPEX. So, just to sort of clarify the investment of Rs. 2,500 crores, it would be over how many years?

Jagmohan Sood: Over a 2-year period.

Abhijit Mitra: So, FY23 and FY24, okay. And assuming say a debt equity of 40:60 or 50:50. So, JSL will sort of fund 25% or 26% of that? Is that the understanding? So, anywhere between Rs. 250 crores to Rs. 260 crores?

Anurag Mantri: There's no specific of this account because this project is also still under the finalization at JUSL level. That's how they will be unfolding this because in there they have their own earning streams also. What I'm saying is that broadly that we will not get to any other earning support beyond these levels. That's what our broad outer target is. But otherwise, it's not that we'll have to even fund from that perspective, it's not that. It's only that we'll have to ensure that we need is a tolling arrangement from their working strip mill, at least that has remain protected when we increase our capacity because we are doubling our capacity. So, we need those much of guarantees from the JUSL, at least those actually remain protectionist because they have their own outside tolling business also.

Abhijit Mitra: So, just 2 more questions on the tolling arrangement and the future tolling arrangement once the blast furnace comes up. What -- how will the tolling arrangement look like? So, one is, of course, through the HSM that we are taking. We would also be buying the hot metal from them, right? And for that, will we supply iron ore and chrome ore and then buy the hot metal or it will be just buying hot metal like purchasing pig iron from the market? How will that be?

Anurag Mantri: blast furnace that's what, even then their start date will at least be 2.5 years away, 2 years away at least. So, we have not even thought of those. Right now, our thing is that our tolling arrangement with JUSL will only be limited to our hot red strip mill capacity. So, this is still at least 2 financial years away.

Abhijit Mitra: Okay. But you mentioned that RS. 600 kt, Rs. 4,000 per ton, I thought you were referring to that, right?

Anurag Mantri: No, that was only for the purpose of giving the economics that what is out by -- we didn't put up the blast furnace in this because our requirement of blast furnace is not large. That was the answer to that question, the tower requirement is only limited to 400 series and some part of 200 series because otherwise, we will continue to focus on the scrap root. Only from those perspective, where we get a cost advantage, that we wanted to leverage. So, that was in answer to that question, because there's no capacity available in JUSL right now for this purpose. So, it's at least 2 years away when we start working on this.

For them also, the CAPEX outflow will also not be limited. So, they will also have their spread over to 24 months, at least. So, by that time they'll have next 2 years' earnings of their own thing also.

Abhijit Mitra: So, what is the current year EBITDA for JUSL and JCL, if you can tell me on what is the combined net debt that is looking at the end of FY22?

Anurag Mantri: Since the call in on JSL, I think while we can have Goutam and Shreya, I think can give you those numbers for JUSL, it's not right for us to comment on those numbers, but I think they can help you out with those numbers.

Moderator: Next question is from Chetan Shah with Abacus AMC. Please go ahead, sir.

Chetan Shah: Just 1 small clarification. For the current year, what is the volume growth for the combined entity we are expecting? I believe on TV, we said about 18% to 20% group.

Anurag Mantri: FY23, we will not have much volume growth because we are running almost at full capacity and most of the new capacities will be coming at the far end of this fiscal year in Feb-March. So, this year, we will purely end up at almost a flat growth because we don't have a capacity. But FY24 over '23, because new capacity will be coming at the end of this fiscal, so FY24 over '23 will be a good 20% plus growth.

Moderator: Next question is from Vishal Chandak. Please go ahead, sir.

Vishal Chandak: Just continuing with the JUSL and proposed JSL transaction. Sir when we are speaking about Rs. 4,000 per ton savings, could you please help us understand in which part of the process are we expecting this saving?

Jagmohan Sood: At a melt shop level.

Vishal Chandak: So, the idea is that getting the hot metal, molten metal will lead to savings. Is this the energy cost that you are talking about, remelting pig iron? Is that what you're talking about?

Jagmohan Sood: Vishal, this hot metal will not be used directly. It will be first turned into liquid steel. And then this liquid steel will be actually used in the stainless-steel manufacturing in the melting furnace. What we are saying Rs. 4,000, it will be total direct and indirect savings.

Vishal Chandak: Means from JUSL, we would be receiving liquid steel, right?

Jagmohan Sood: We would be receiving liquid steel from JUSL.

Vishal Chandak: After they turn it into the melt shop, we'll be getting the liquid steel.

Jagmohan Sood: Correct.

Vishal Chandak: So, let me put it this way, sir, instead of buying slab, we are purchasing liquid steel so that we can process it through the AOD and make stainless-steel.

Jagmohan Sood: So, let me explain in slight detail. This liquid steel what we are going to get is basically plain carbon liquid steel, it will not have any chromium, any manganese, any other alloying element. So, it will be plain carbon steel. This plain carbon steel will be fed into the AOD furnace, and there, it will be converted into stainless-steel with the refining.

We will make additions for chromium, manganese and whatever alloying elements are required and then it will be basically turned into stainless-steel. It is not that directly, we can actually make it into stainless-steel. It is carbon steel fed into the stainless-steel AOD converter and then it is actually made into stainless-steel.

Vishal Chandak: Sir, in this context, I'm sure you would have evaluated that instead of putting in CAPEX in JUSL, would that be more advantageous and cleaner structure to have a smaller electric arc furnace of about 0.6 million tons per annum capacity. That would have served a dual purpose, it would have generated the kind of liquid steel that you would have wanted and it would have also served as a steel melt shop in terms whenever you want to have a flexibility in the system. Then obviously, you will have no issues with respect to JUSL transaction related party issues, et cetera.

Jagmohan Sood: Let me handle the first question you asked. The savings which are getting accrued, they are largely from the raw materials and that the savings are more part of it, okay. So, when you say that you can have it by putting up a small electric arc furnace that was well thought off, but because the raw material saving was not happening from that, so it was stopped. Second option was to put a small blast furnace because we were trying to get a benefit of raw materials because --

Vishal Chandak: The small blast furnace as we understand is out of question, sir.

Jagmohan Sood: It is out of question. What you need to understand is why it cannot be from electric arc furnace because electric arc furnace is not giving you advantage in terms of raw material cost advantage what we are getting from the hot metal. So, the large advantage, we are having in this scheme of things is hot metal is giving us a huge advantage in terms of cost. That is the thing.

Vishal Chandak: This would have been an arm’s length transaction. But in an arm’s length transaction, we would get the metal at the market prices for the benefit of raw material will stay with JUSL, right?

Anurag Mantri: So, let me first tell you, I think it's at least 2 years away, and we have not worked out, but obviously there would be a benefit which will be accruing to JUSL, as I think even in the current tolling arrangement, and this has all been subject to various audits, NOC loans because like even in the tolling there which means, our stainless-steel tolling, and we have seen the kind of rates which we are getting as even when the currency market was also up because their facilities are also getting completely engaged on those parts.

So, we will surely get some of the benefit. I think it's too early to do those at least through fiscal year away. We have been talking about at least FY25 or '26 this type of a thing. So, we have time to get into them once they conceptualize their full project and how they evolve there.

Moderator: Next question is from Vikash Singh with Phillip Capital. Please go ahead, sir.

Vikash Singh: Sir, I just wanted to understand once our new 1.1-million-ton SMS would come in, how do our product mix is changing? Because I see that a good part of our EBITDA improvement is because of the improved product mix, especially in JHSL. So, how the combined entity product mix would change in terms of the percentage or value addition and its impact on our EBITDA per ton going forward?

Abhyuday Jindal: Hisar JSHL, our focus will always remain on value-added products and further investments that we have made into precision strip and blade steel that will always, always remain on the margin business. And also going forward, in terms of percentage, it would remain the same. Mr. Sood is here.

Jagmohan Sood: You're asking specifically just 1.1 to 2.1 when we are going, how much is going to be the change in the product mix. To tell you about the product mix, it is going to remain almost same. Currently, we are having almost 25% 400 series, 25% 200 series, and 50% 300 series. It is largely going to remain the same. What will change is the absolute number, 300 series is going to grow, okay, like in the absolute term. And as Abhyuday was telling, yes, Hisar is being continuously focused on blade steel and precision steel. So, there, we are focused on value addition. Here, it is going to be the same product mix. What we have been manufacturing right now, we would be putting up that only.

Vikash Singh: Sir even after increase, our understanding is that the mix would not change. Is that a correct understanding?

Jagmohan Sood: Mix would not change. But here, what other things would change as we had mentioned earlier also since we are putting up a new USBR facility combo facility. Our mix of value-added will slightly increase. From currently, it is about 50%, it will go up to say around 65%.

Vikash Singh: Understood. And sir, I actually joined a little bit late because I got dropped on your opening remarks, I'm not sure whether you have clarified. Just wanted to understand with the nickel prices are behaving so volatile, how is our inventory situation right now? And have we seen any problems with respect to the new order booking on those series basically?

Jagmohan Sood: Okay. Since the past 2 months, I think nickel is behaving in a very volatile manner, and there are reasons to that. And you know the geopolitical situation and how some Chinese leader has held nickel over the LME. We have all these stories available on the Internet and everywhere. So, going by that, yes, there was some kind disruption in the marketplace. On the demand side also, there was some kind of confusion from the customer point of view, okay? But now since nickel has actually gone into the territory of about $30,000 to $36,000 per ton, it is moving in that fashion. So, nickel is completely deregulating. Nickel which is being used in the stainless-steel manufacturing level, it is getting dealing from the LME.

Now this stainless-steel business, we are using nickel in the form of scrap or nickel pig iron or ferro nickel. So, probably somewhere if nickel behaves still in the highly volatile manner, probably it will be totally delinked in the future.

But what we see in the near term, since there is small confusion in the demand side and probably somewhere from the customer angle probably that demand is not getting picked up. So, the point you are trying to make is that how we are actually trying to hedge up.

Vikash Singh: So, what I want to exactly know that how we are coping up with this situation? What kind of the impact we are witnessing right now? And exactly what are the steps we are taking to cope up?

Jagmohan Sood: Because it is getting bailing and our manufacturing is based on scrap and nickel pig iron and ferro nickel. So, we are not into that kind of a thing and our manufacturing is largely based on that. So, from the cost point of view, we are well under control by using this type of raw materials and this type of nickel variants.

Vikash Singh: Sorry, sir, I did not understand. Basically, what I wanted to understand is how much of the volume has been impacted on those series? And exactly have we seen any improvement because now it seems to be stabilizing. So, the lost volume, some part of it is coming back to us or is still the market is in confused state and it would take time to normalize?

Jagmohan Sood: Okay. Just to give you the background, there is a little bit of lull in the market price, okay. So, there has been some slowness in the market size when we talk of 300 series. But this market has a demand of 200 and 400 series and market is demanding material in these series.

So, when nickel is behaving in this fashion though we are losing --

Anurag Mantri: So, what happens is that whenever there is a volatility, the buying pattern just typically take a bit of open pause in open sort of situation because also customers get confused, especially because nickel is mostly largely has a bearing on 300 series. So, in terms of their buying decisions on this. So, either some destocking happened for some time and then, but when this volatility happens largely, I think we have not canceled any single order, let me tell you, I think because we were doing the back-to-back coverage of our raw material. And we were catering to all the orders as committed. In fact, some of the European players, what we had, they repriced the order later on. But in our case, because some of the volumes like for a timing, obviously for 300 series was there.

Overall demand continued, but overall, I think on a full year basis, we are confident that we'll meet the full volume. That's not becoming a challenge. So, it's not a demand which is -- they are giving us the challenges. It's more the buying pattern at the particular volatile period, it always happens.

Abhyuday Jindal: It's a unique situation in the world right now, which has never been faced by the stainless-steel industry. So, the concept that the whole world is working on is on lean inventory. No one in the system is talking. Everyone is definitely aware that there is huge volatility of nickel, chrome, steel scrap, etc. So, everyone is working on lean inventory, low inventory model, but we really feel its maybe in this quarter only. Then again, it will stabilize because the world cannot operate in this fashion at all. So, it's a very unique period that this has happened. It's a unique situation in the whole world, compounding with the Russia-Ukraine factor also. But by Q1, we think this whole thing would stabilize and it should be normal course of business after that.

Vikash Singh: Just one last question. In terms of scrap availability and the logistics of it, so we're hearing a lot of things regarding the tight availability, etc. So, if you could just explain a little bit on that, how are we placed in terms of that? Are we facing any difficulty in terms of procurement of scraps, et cetera?

Abhyuday Jindal: No, not at all. In terms of availability, because of the kind of partners and the supply chain that we have created, we are again very flexible. We have traders, our partners all across the globe. Focus is always domestic and Southeast Asia and nearby countries, which is exactly where even till now we are able to get all our scrap requirements. So, from a raw material perspective, we are in a very comfortable position.

Moderator: Our next question is from Ritwik from with One-Up Financial Consultants Private Limited. Please go ahead, sir.

Ritwik: Sir, I have a few questions. Firstly, you mentioned that U.S. we have tripled the volumes in FY22. So, is it possible to quantify on an absolute basis? And where do you think this will move over the next 3 years?

Abhyuday Jindal: I think U.S. being one of our target markets, if I can tell you, it's very difficult to say a 3-year time what is our exact targeted figures, but this year.

Anurag Mantri: Geographically, as we said that because being an agile and flexibility in our product range in geographies, we keep changing because of wherever we're getting the better margin order. So, just to give you the perspective overall, in JSL, a large part of the U.S. order which we cater, typically the quarter 4, our export mix was 32% of our total sales volume. And on a full year basis, it was 25%. And last year, it was 19%. Now out of 25% this year, other 15% came from U.S. So, that was the status there.

Ritwik: Of the JSL volume.

Anurag Mantri: Yes. So, almost 15% of the JSL volumes were actually from U.S. market.

Ritwik: So, it would be close to 40,000, 45,000 of volume in JSL?

Abhyuday Jindal: Yes.

Ritwik: The reason I'm asking is that in the last couple of quarters, you have mentioned that we want to scale up in U.S. market. So, that would be a good diversification and added geography given the imports are coming in the country. So, just wanted to get a sense from where this 40,000 tons will move over the next 3 years, especially when we are doubling our capacity at JSL?

Anurag Mantri: Just to correct, I think it was not on combined volume, it was actually on JSL volume what I said, I was mentioning the JSL volume, which is close to 1.01 million and the 15% that's coming from U.S. markets.

Ritwik: So, 15% of the total JSL volume is from the U.S. market?

Jagmohan Sood: Ritwik, it 15% with total export market.

Ritwik: And sir, with this expansion on track by FY'23 and we would have commissioned the capacity at JSL. So, when in your sense, we can ramp up this to full utilization? And given the fact that 1 million ton, we would have to look for incremental or probably new geographies as well since it's a decent enough volume for us to sell?

Abhyuday Jindal: So, it would take about almost a year's time to commission to full capacity. And we see enough demand, there is good growth. In the industry, it's the fastest-growing metal, it's almost growing at about 9% domestically itself, and we see the usage is only increasing, like in infrastructure, which was totally dominated by concrete and steel, now you're going to see stainless-steel having a very, very major role to play. Like I mentioned already, we built our first asset foot over bridge in June. Like that 20 bridges itself this year are planned plus another 300 more in the pipeline. So, in terms of our 1-million-ton capacity, domestic, we see good growth coming in high-end segments in your process industry. And similarly, like we mentioned, US is going to be a target market for us. So, there, we further want to increase year-on-year basis.

Ritwik: And just 1 last clarification. There were a lot of questions on JUSL expansion. So, this 2 million ton expansion is an incremental expansion or right now, I believe its 1 million ton, which will go to 2 million tons over the next 2 to 3 years?

Abhyuday Jindal: It's separate, 2 million tons additional.

Ritwik: And so they would have some kind of cash flows as well, right, since they have a 1 million ton capacity right now. So, they would have their cash flows and this Rs. 2,500 CAPEX over next 2 to 3 years. So, would it be fair to assume that the cash flows of 40%, 50% of the CAPEX requirement would be funded from internal cash accruals?

Anurag Mantri: Large part, yes, because there were 1.6-million-ton capacity of hot strip mill right now, which they are increasing to 3.2 separately. So, they will have their own tolling revenue plus JCL, Jindal Corp, which is also sells coke oven in the that also is actually getting merged. So, they've combined. They will have a healthy cash flow. And they don't have much of the debt, liabilities at least for the next 3, 4 years.

Ritwik: Maybe I'll take this offline.

Moderator: Our next question is from Ashish Kejriwal with Centrum Broking.

Ashish Kejriwal: Three questions for me. One is we have seen in FY22 that part of our earnings got captured in working capital. And because of that effect, we are unable to reduce our debt. So, first is where we are in the working capital cycle? Do we think that, that is going to ease from the current level or it will increase or how it is? Second is, is it possible to give a cash flow CAPEX guidance for FY23? Because in FY22, I think we have spent only Rs. 750 crores. So, how the CAPEX will happen in FY23 when we are going to finish all the projects? And third, you mentioned about the dividend policy, but is it possible that we can have some elaborative capital allocation policy? Because maybe in a year or 2 years' time, we'll be debt-free. So, it's very important for us to understand what our thought process is going forward in terms of capital allocation?

Anurag Mantri: Let me answer first. So, working capital is purely because of the function of the raw material prices. And if the prices come down, it will immediately resolve. So, because our increase is purely linked with higher raw material prices because the volumes are also actually at a peak level. So, it's not possible to give that commitment number because if the raw material prices remain high, this will remain at the same level. But if they come down say half, our working capital requirement, we have seen that in the past also immediately, it will come down drastically because it's only the deployment, which we'll have to do primarily for the inventory purposes. So, that's on working capital side. It's not right for us to predict the raw material prices because our focus is always to have a complete risk management strategy. So, we keep balancing between our sales and our sourcing. So, we'll not take the commodity exposure with us.

Ashish Kejriwal: Just on this working capital only, what we are seeing is in FY22, number of days of inventory has reduced drastically. Despite this fact, this is happening. So, I don't know how, first of all, this number of days has declined so drastically in FY22? And despite that, we are having such working capital pressure.

Anurag Mantri: Because if you see the underlying raw material prices have increased considerably. That's because when you look at just on 1 point, 2 point number because the average deployment comes when you close that itself because of the previous almost 3 months average basis. So, if raw material prices have increased, it's purely reflection of prices. That's what I said, the moment it comes down. So, our base, we are keeping a very close check. Either we are increasing our exposure in terms of any of the underlying commodity. That's what our prime focus is. And debtors days also completely remain under control. So, the increase is not concerned to that increase in changes in the days, it's purely because of the prices, which we'll have to maintain and that also depends on the particular series.

So, if you have a larger 300 series campaigns that are going on at that particular point of time at the end of the quarter, you will see a much higher inventories at that point of time because that we have seen when most of the export orders were being catered from 300 series. So, therefore, you will see a large inventory. But if similar thing happens say 400 series, then again it will be a different inventory level in all.

And CAPEX side, so out of the total committed CAPEX of Rs. 2,600 crores, we spent close to Rs. 950 crore or close to Rs. 1,000 crores in FY22. And FY23, this year, we expect close to RS. 1,200 crore because some of the spill over CAPEX of the last year will come because we earlier guided you for close to Rs. 1,100 crore CAPEX. And this year, we expect close to Rs. 1,200 crores to Rs. 1,300 crores of the CAPEX as we are finishing the project. Maintenance CAPEX will be separate, which ranges between Rs. 300 crores to Rs. 400 crores.

Ashish Kejriwal: You're talking about the combined entity here?

Anurag Mantri: Combined entity, right. On dividend or if you say the shareholders return policy, this is in what form we will get to this, this has to be decided at the time by the Board at the time when they get to this. But idea was that to because earlier we were having a very generic dividend policy. The Board deliberated this and since they depending on our earnings and all the things, Board took a decision that progressively we should target to reach towards 20% of the shareholders' return.

Ashish Kejriwal: So, I was looking at more of capital allocation policy, which dividend policy could be a part of it, but what could be our strategic capital allocation policy, let's say, by free cash flows, how you want to distribute it in terms of growth, in terms of deleveraging, in terms of dividend distribution? Is there any policy which is in our mind?

Anurag Mantri: Sure, that's a good suggestion. Ashish, this year once we complete the deployment of this CAPEX, I think then some time, I think by the end of the fiscal year, we'll see that how we should evolve this because once our current CAPEX cycle gets over by end of this fiscal year.

Moderator: Due to time constraints, this will be the last question. I would now like to hand the conference over to Mr. Vishal Chandak for closing comments. Please go ahead, sir.

Vishal Chandak: Thank you very much, everyone, for joining in for today's call. I think this was a very healthy and lively discussion. I would request Mr. Abhyuday Jindal for his closing remarks. Over to you, sir.

Abhyuday Jindal: Thank you. I would like to thank everyone for attending this call. Despite many challenges from raw material price volatility to supply chain disruption to geopolitical tensions, our robust performance is a testimony to our agile and focused business strategy. Prudent financial management has been complementing strong operational performance. I hope we have been able to answer all your questions. Should you have any further clarification or would like to know more about the company, please feel free to contact our Investor Relations team. And we have taken note of all the questions and all the concerns. So, definitely, in the next call, we will try to answer in a more detailed fashion. So, thank you once again for taking out the time to join us on this call and stay safe.

Moderator: Thank you. On behalf of Motilal Oswal, that concludes this conference. Thank you for joining us and you may now disconnect your lines.