“Conference Call with Jindal Steel & Power Limited Discussion on the Recent Developments”

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MANAGEMENT: MR. RAVI UPPAL – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER, JINDAL STEEL & POWER LIMITED
MR. K. RAJAGOPAL – DIRECTOR & GROUP CHIEF FINANCIAL OFFICER, JINDAL STEEL & POWER LIMITED
MR. HARISH DUA – ACTING CHIEF FINANCIAL OFFICER, JINDAL STEEL & POWER LIMITED
MR. HEMANT KUMAR – HEAD, TREASURY, JINDAL STEEL & POWER LIMITED
MR. BALASUBRAMANYAM – HEAD, INVESTOR RELATIONS, JINDAL STEEL & POWER LIMITED

MODERATOR: MR. SANJAY JAIN – METAL ANALYST - MOTILAL OSWAL SECURITIES LIMITED
Moderator: Ladies and Gentlemen Good Day and Welcome to the Jindal Steel & Power Limited Conference Call to Discuss the Recent Developments hosted by Motilal Oswal Securities Limited.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Sanjay Jain from Motilal Oswal Securities. Thank you. And over to you Mr. Jain.

Sanjay Jain: Thank you, Karuna. Good Afternoon, everyone. On behalf of Motilal Oswal Securities I welcome you all for an interaction with the top management of Jindal Steel & Power to discuss recent developments and thank you dialing in at such a short notice. We are honored to host Mr. Ravi Uppal – M.D. & CEO; Mr. Rajagopal — Director and Group CFO; Mr. Harish Dua — Acting CFO and Mr. Balasubramanyam — Head of Investor Relations.

So I now hand over the call to Mr. Bala, Mr. Bala, please.

Balasubramanyam: Good Afternoon, Ladies and Gentlemen. On behalf of JSPL we welcome you to this conference call to discuss the latest developments with regard to the coal auctioning. As mentioned by Sanjay Jain, we today have Mr. Ravi Uppal — our MD and Group CEO, along with him our Mr. K Rajagopal — Director and CFO, also joining this conference call is Mr. Harish Dua — Financial Controller and Acting CFO; and Hemant Kumar — our Head of Treasury.

So I request our MD and Group CEO to give his opening comments, post which we will have a question-and-answer. A request to all the participants, please restrict your questions to one or two so that everybody gets a chance to speak. Over to you sir.

Ravi Uppal: Very good afternoon, ladies and gentlemen. Thank you for joining in this call. There has been a lot of news created about the JSPL’s coal blocks, for which we had participated in the recent auctions in the month of February and early March. I would like to first clarify company’s position on that: We had participated in the blocks to source coal for our power plants as well as for the steel plants and we were declared as the lowest bidder for the blocks of Gare Palma-2 and 3 and Tara Block. Each one of them have the extractable reserves which are in excess of 160 million tonnes. These are big mines; one of the mine is an operating mine and the second mine is a
mine to be developed, but both the mines are located in the State of Chhattisgarh. As you know that in Chhattisgarh we have our Tamnar Power Project with a capacity of 3400 MW which was made up into three EUPs... EUP means End User Project, 4 x 250 EUP I, EUP II is for 2 x 600 MW and EUP III is a 2 x 600 MW. We were expecting after we were declared to be the most preferred bidder by none other than the Ministry of Coal in their tweet that we should be invited to come and sign the mining agreement, but unfortunately, we were not invited and it is only on this Saturday early morning, we were informed that our bids are not in sort of accepted by the Ministry of Coal. It certainly took us by surprise because we did not think there was any valid ground for our bids not to be accepted. It is our firm view that the company has put in bids which are very competitive and were to bring a huge amount of benefits to the government both at the federal as well as at the state level. We have informed the government in writing that the quantum benefits that will flow to them which is in excess of Rs.58,000 crores, this does not include the benefit that were accrued to state government in addition out of the simple reason that our units are located in Chhattisgarh and we have to source the coal from Chhattisgarh Government and then of course we have the obligation of giving 7.5% of the power that we generate to the state at variable cost. Since in these two mines we have quoted a price which was in a negative range, which essentially means that in the tariff to the consumer, the variable cost would be taken as zero. So therefore the government was to get the power virtually free of cost up to 7.5%. So the benefits to government at federal and the state level are simply very large and we see absolutely no reason for not awarding the contracts to us and we are hopeful that government will reconsider their decision, we have written to them, and I hope that the good sense and fair sense will prevail. We do laud the effort done by the government to speedily auction these blocks, but we are not in agreement that the bids quoted by us low that each mine is a unique mine that is the amount of reserves that it holds, its present status whether it is in production or it is yet to be developed... I would revert to this point later just to make you understand.

Third, whether it is an open cast mining or say underground mining or a combination of both these, then the strip ratio which is applicable and then you have to consider distance between the mine and the nearest point where the coal is to be delivered for application. I would like to inform that the Gare Palma II and III mine which has been upgraded by us for last more than 6-years which we know extremely well is a mine where there are no routes that exist, the nearest rail head is available at a distance of close to 60 Kms and after we started the mining operation, we had set up a dedicated pipe conveyor system to deliver which is about 6 Kms long to bring the
coal from the pit head up to the washeries of the power plant. So therefore we had designed a special system to deliver the coal. But for anyone to take the coal out of these mines in the present state is a formidable task. The mine has a mining rate of 6.25 million tonnes a year, which translates into 20,000 to 21,000 tonnes of coal everyday. Just to make you feel the gravity of the task involved, if you use tippers to evacuate the coal, each tipper can carry only about 20 tonnes, it means to cart way the coal which is 20,000-21,000 tonnes a day, you have to bring in everyday 1,000 tippers day in day out, the mines that we are talking about is not an activity which will last months or couple of years, we are talking about 25 to 30-year long engagement. So therefore all these people who had bid for these mines, they had pretty considered the gravity of task involved and also the fact that it has to be taken up straight away because it is a operating mine. So if you do not mine, then you are penalized. But, if you mine and if you do not have PPAs, in that case you have to deliver 85% of the coal you produce to Coal India. So therefore all these factors have had impact on the prices to be offered. But having said that let me tell you the reserve price for government for the Gare Palma II and III mine was Rs.700, as against which we quoted (-108) which means not only zero but (-108) for the Gare Palma II and III. So we basically quoted Rs.808 lower than the ceiling price fixed by the government. And when one comes to Tara, the ceiling price by the government was Rs.940 and we quoted (-126) which means that we gave a reduction of Rs.1046 over the ceiling price. The government when they made the tender documents, they have announced the intrinsic value of the coal from each mines, because on that basis they had estimated the total value of the 10% advance we have to give them, and you would be pleased to know that the value that we have offered the government, it basically translates into 24x the value that they have fixed as the intrinsic value. So you take by any stretch there is absolutely no reason for anyone to suggest that the coal prices quoted by us are low and you need to understand all mines are different. So it would be misleading to compare the price of one against the other. So if somebody says that (-108) or (-126) is low compared to somebody had quoted some (-1100) the factors are very different. Then one could also question why is (-302) not low? Why (-450) (-478) is not low? So I think there is absolutely no reason for anyone to come to a conclusion that these prices are low. I have already told you 24x over the intrinsic value assessment government is what we have offered and the total benefit to the federal and the state government is of the order of Rs. (+58,000) crores during useful life of the mine.

So, it is our humble submission to the government that our offer should still be reconsidered and we have made a submission that we are prepared to come and give
a presentation to the government justifying that the prices quoted by us were fiercely competitive which nobody can match. So this is one thing that I want to mention to you because people do get news in bits and pieces, but I thought it is important to give you the wholesome perspective about this. Now that the decision has been communicated to us this Saturday morning, the management team is meeting, we are evaluating as to what are the other options that we should really take recourse to ensure that the coal supply remains adequate for our operations to be carried on, of course the JSPL management, as you know from your past interaction has always been very proactive, very engaging, and keeping that in mind we have already sort of taken some actions to make sure that the power plant and steel plant operations remain uninterrupted to the maximum possible extent.

I also wish like to inform you that if you take our power block, it has three section – EUP-I, II and III – EUP-II has a coal linkage which is for 2 units of 600 MW. So we will continue to draw the coal out of the linkage to the extent that we have the PPAs, and for the EUP-I and EUP-III, in EUP-I wherever we have the PPAs or we will sell the power in the open market, we have the sourcing strategy underway, there are various options whether we buy it in the auction as we have done in the past or we source it from imports as we have done in the past, plus we also remain open to participate in the other coming tenders which were mentioned by the Ministry of Coal recently, more than 20-26 mines are coming for the auction at the end of April. So we will continue to use all the means at our disposal, to see that we are provided with adequate coal for the operation of power plants. Going forward it would remain our intention to see that out of the phase EUP-I (4 x 250 MW) we run at these three units on a continuous basis, and if the load is available, we will also try to run the fourth unit. EUP-II which has two units of 600 MW for which we have the coal linkage available for the PPAs, there we will be running at least one unit, and we may run second unit depending upon the availability or load as well as the availability of the coal, for which we will be working very hard. And that leaves only EUP-III that for 1 unit we have got the COD, the second the plant is commissioned, synchronized, there again we would run it depending upon the extent of load and the availability of coal. So this would largely be our plan for the power plant and we are working out special details about how to sort of procure the coal which is required for the operation of these plants. But, I want to assure you on behalf of the management that you stay confident, have full trust in the management, we have weathered difficulties and challenges in the past and we will continue to do so in future and we will try to make sure that the best possible performance is delivered out of the power units.
Let me say a few words on the steel side: I am very pleased to tell you that now all our steel plants are fully commissioned and they are performing, last week we had a record performance in our DRI unit in Angul; we delivered record 220 tonnes per hour of DRI as against a maximum capacity of about 240 to 245 tonnes per hour. So the plate mill is performing well. Very much appreciated by the customers. Delivery model has stabilized. And Raigarh plant also, both the blast furnaces after upgradation and the SMS, all of them are delivering well. In the recent weeks and months, as you know that the steel demand has been subdued; there has been a bit of slow down on steel sector both nationally and globally, and I hope that as the Indian economy & infrastructure demand picks up in the next 3 to 6-months, I do see the demand looking up and I think we are well poised to capture the share. We are also trying to sensitize the government about making sure that the Indian market is protected against dumping by suppliers from outside and I am quite optimistic that some steps would be taken in that direction in the weeks and months to come. So the steel plants are well poised in terms of delivery and next year we have increased our target as compared to this year. Our target is that we should be delivering at least about 50% to 60% more steel next year compared to the tonnes that we did this year. Likewise, in Barbil, both the pellet plants have been running wonderfully well, and we are making arrangements now to see that both the plants are getting to full functioning next year, and in our budget for next year we have targeted a quantum jump in the total volume of pellets that we are going to produce out of the two pellet plants. The iron ore situation is easing, lot of mines are getting opened, and I am sure that with the new MMDR policy government has announced, this will have a very positive impact on the new mines are getting started and allocation of the new mines, and further the coal situation will also ease, because now Coal India this year is going to deliver 8% more coal than they did last year, and in the words of the Hon’ble Minister himself and the Secretary, there is a huge focus on increasing the output of Coal India, my own reckoning is in the next 2-years time the coal situation will definitely ease and more coal will be available from the domestic sources in the Indian market, and the kind of crisis that we see in regard to sourcing coal, I think it might become a matter of the past in the next 2-years time.

So I think this is my broad update for you with regard to the sourcing of coal. Our plans for next year that we stay on course that company has taken many-many initiatives for operation excellence, cycle times have been reduced, the costs have been dramatically reduced, even though we have gone through the situational challenge we have put in place many other factors to compensate for any adverse that might have been created by the external conditions.
Moderator: Thank you very much, sir. We have first question from the line of Saumil M from IDFC Securities. Please go ahead.

Saumil M: Sir two questions from my side: One is the 10% of the intrinsic value which was to be paid, what is that amount for Gare Palma II, III and Tara both individually if you can give?

Ravi Uppal: Let me just say that in this 10% is to be paid only after you are invited to sign the agreement, it is not before that, we have not come to that stage yet.

K. Rajagopal: And that numbers are available on the website itself.

Saumil M: Second thing, while it is difficult to ascertain, do we have a chance of appeal or how will the regulatory and the legal course take on from here?

Ravi Uppal: We have made a petition to the Delhi High Court this morning in which we have basically asked for reconsideration of the whole government’s decision. So the hearings for that will start probably today or tomorrow.

Saumil M: Based on the outcome on the Delhi High Court you will probably appeal in the higher court if the need arises?

Ravi Uppal: Yes, we will see that, this is a subsequent thing.

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

Pinakin Parekh: Two questions from my side: First, you mentioned the operational difficulties for any new miner to come through and do mining at the 6 million tonnes plus rate given the tippers required. So sir in the interim given that the Government of India is probably going to either give the coal block to Coal India or the state government, do you see mining output from this particular mine drop very sharply given the operational difficulties?

Ravi Uppal: First, it remains to be seen what they do with it, whether they give it to Coal India or someone else, so because their individual competency is to execute and deliver is different. So it would not be possible for me to make a specific comment as to whether it would drop or what will happen. So I think it is a little premature to talk
about what they do. So we have basically filed in a petition with the court and we have requested for a status quo.

Pinakin Parekh:  Lastly, so far have you received any official communication from the Government of India or is it that what we have just seen in terms of newspaper comments or tweets because there does not seem to be any communication is regarding why exactly the three bids have been rejected?

Ravi Uppal:  We have got a 4-line message from the government on Saturday saying that “Your offers have not been accepted by the government in view of the low price.”

Moderator:  Thank you. Next question is from the line of Bhavin Vithlani from Axis Capital. Please go ahead.

Bhavin Vithlani:  Sir, a couple of questions: First is, is there a provision in the contract or the law of the coal auctions that gives government the power to reject the bids in case they believe the pricing is inappropriate?

Ravi Uppal:  There is always a general clause in any government tender, this is not the only case in which the government reserves the right to sort of not accept a bid and resort to other options, so that kind of general clause is there in every government tender. But the fact remains that even if government wants to exercise the judgment, since we are not talking about a private company, we are talking about the Government of India, they must have a very justifiable reason as to why they took a certain decision.

Bhavin Vithlani:  That is what we are trying to understand because you said that you just got a 4-line message from the government that the bids are rejected because the price is too low, and what we also keep hearing in the media about some committee which has been set up to look into was there any cartelization or not, any communication from the government on that front?

Ravi Uppal:  Let me just remind you, this question has been sort of hypothetical and has been put by the media now and then and the government has constantly maintained that there is no such thing and they have no such charges, there is no such evidence of anything and it is only in view of the low price what they call was “Outliers” that they decided not to award this to us which is something that we are not convinced about, and this is why we have made this petition.
Bhavin Vithlani: You said your Plan-B is that you would be importing coal or you would be resorting to e-auction and you do not have firm commitments in the EUP-I and III. Can you help us understand a little bit on the logistics for the imported coal?

Ravi Uppal: We are importing coal from Indonesia, Australia and Mozambique, we have done in the past, and we will continue to use the same channel. The second thing is that we will also participate in the government auctions for the coal. So we have been sort of using these channels even in the past and we made sure the plants continue to run well because the coal that we were getting in the past also was not adequate, but we managed to make sure that the plants in the Phase-II and Phase-III they also become operational.

Bhavin Vithlani: Sir, my question is more because the infrastructure that would have been built for the Raigarh complex was for a particular capacity and now you overnight would require a quantum jump in the import, so if you can help us understand that whether the logistics in terms of …?

Ravi Uppal: In the recent days we have set up a dedicated coal group within JSPL which will coordinate the complete coal procurement strategy. Very-very senior people have been put into this stream, they will look at the various options to source the coal, make sure that logistics, procurement, participation, all of them are taken care, and this is like our internal coal authority.

Bhavin Vithlani: So which means we can assume that in case the merchant prices are remunerative we would resort to importing coal or e-auction. If one uses the current price of imported coal, what could be the landed price of thermal coal at the power plant?

Ravi Uppal: Typically, I would say that the landed coal varies anywhere between 0.85 to Re.1 per kilocalorie and internationally the coal prices have also fallen as you know that. So therefore the prices have been ranging within this.

Moderator: Sir, we have next question from the line of Swagato Ghosh from Jefferies. Please go ahead.

Swagato Ghosh: Sir, my question is basically a follow up to the last question; so in this case suppose you have a PPA for the plant and instead of getting this mine you go for the international coal. Since you have gone for negative price bid, in that PPA your coal cost should be zero, right, so how does that dynamics change — does the old PPA
remain valid and the new PPA is only valid for the zero coal cost, can you just explain the dynamics there?

Ravi Uppal: I am glad you asked this question because I would like to clarify. If we have the same PPA which is not drawing the coal from the coal block, then the PPA remains valid but if we had resorted to drawing the coal from the coal block, then we obviously were guided by the price that we have committed for the coal in the bid documents. If in the immediate future we are not getting the coal out of the block in that case the old thing remains valid. So as a matter of fact that would have meant that one challenge in any case that if we would have got the block we had to revise the energy charge based on the price that we quoted and if the price we quoted was negative, it means on coal account our charge would have been zero under that, and then of course you have the other cost that you include under energy charge, which is the transportation plus all the taxes that you pay, that you could have included, but the main component of the energy charge which is the cost of the coal that would have become zero in any case, which will not be the case right now.

Bhavin Vithlani: Sir, my question basically comes from the fact here is that suppose there is a Discom who wants to buy power today, you want to get into a PPA with them, now the point is suppose if you had got the mine, your coal cost would have been zero, okay, so the tariff that you will quote says ‘X,’ somebody who is say importing coal will have a completely different tariff. So is it like the only the final tariff is being looked at when the PPA is going to be signed or how does this work because once the coal cost goes to zero, the final tariff has to change, right?

Ravi Uppal: The whole thing is in a very fluid state at this moment; government is still looking at this policy that the source of coal is going to be different, in some cases it would be out of the block, some cases would be out of the linkage and the third case it could be out of imports or a combination of these two. I think the government is going to see how each one of this case when it comes to the PPA bidding. This has not become clear as yet. So, we are still quoting as per the old norms, but I do believe that after the coal blocks are allocated, those who have coal blocks, they will be governed by the cost they have quoted in the bids for the coal blocks.

Bhavin Vithlani: In your opening remarks, you said that you have to sell 7.5% to Chhattisgarh…?

Ravi Uppal: Yes, if we get the coal from the coal blocks.
Bhavin Vithlani: There will be 15% which you can sell in the open access and rest you can sign PPA with any state anywhere, right?

Ravi Uppal: Yes, that is correct; 85% we are free to sell.

Bhavin Vithlani: That 7.5% has to be sold at any concessional rate or is it a normal PPA?

Ravi Uppal: It will have to be sold as per concessional rate. Only when you draw the coal from the coal blocks.

K. Rajagopal: Since Mr. Uppal has to go for an outside meeting, I am available now. So let me just give you the financial overview observation, then afterwards open for questions. So there are several questions on our financial performance and outlook for next year and maybe beyond. Let me also want to clarify that ‘15-16, we already made a plan without this coal block, in the sense because even when we had won these coal blocks, Tara coal block is available only after 18-months to 24-months for real production and use, and the Gare Palma-II & III, we have quoted for our end use Plant-3 for which we have no PPA. So, these coal blocks only you can use where you have a PPA. We already made a plan that without this coal block how we should do. Our overall situation for the ‘15-16 is #1 on the steel, we go from 3 million to 4.6 million because we are going to take the additional output from our Angul plant which we had planned to take additional output in the second quarter in ’14-15 which did not happen and it took more time to stabilize, which has stabilized in this last quarter. So this year we will be reaching about 0.5 million ton production but next year we will go to 3x of that. So, that is at this point important. Second, our pellet plant, which we have increased the capacity to double, we will also go from nearly 4.5 million to double up that capacity. So, this is additional. And in our power plant, this year 4x250 we are operating at (+95%) and then we operate at a very low level of the new unit. While I will come back on the sourcing plan, I am trying to outline what is our operational plan on base of which financials will flow. So, we will continue to operate 4x250 at (+90%) and second unit of 2x600 unit, in which we have a linkage and we have a PPA. So, that we will operate because evacuation is available from April and is further improving. So there we intend to operate definitely (+60%). And third end use plant, where we have already commissioned only one unit, another one is yet to be commissioned, we will decide on the basis of what kind of coal available and other opportunities available per se. So the message what I am giving is that even in power we will increase more than 50-60% of the current year operation. And on the international operation, this year we are incurring
loss, and even on a conservative basis, for next year also, we have kept a loss, because in Oman, we are going to operate our SMS fully, but the steel prices have come down, so our profitability has come down, but it is not in unexpected line. And in other places, we will reduce the loss, but on overall basis, we have kept still negative in global international operation. On the resourcing side, as I said, we take the Jindal power 4x250 we said we will operate and we already plan how we will bring e-auction coal and linkage coal and imported coal because we will have a combination of the coal, and the prices what we have considered the expected realization is definitely going to be the profitable operation. If we see in a simple way, 4x250 has always operated at (+90%) without a long-term PPA. Our fixed cost is minimal there and we were operating at (+95%). That is in our hands, we will continue to operate. What is missing will be the coal availability at a particular price.

As I explained, even if we had won this mine and they were not available for us in ’15-16, so we already made a very detailed elaborate plan, which is a big logistics exercise, but that is what the company has the plans put in place to bring them but definitely the cost is much higher than what we would have been getting from our mines in ’14-15. So, that is going to reduce our EBITDA to an extent of 50%, but we will get additional EBITDA and profitability from the additional second unit we are operating. So, on an overall basis, the profitability wise, we will be less than this year but it will be a profitable level. And on the steel plant, as I said, we are reducing our thermal coal consumption in Raigarh by increasing our blast furnace production and similarly, we already made a plan to get the coal for our Angul plant as well. We also have some linkage and then we can also get coal from e-auction and from imported coal combination, and for Raigarh we already reduced about 40% of the coal consumption and then they are also getting from e-auction and also imported coal, this will support these production levels. While we have reduced our EBITDA levels, we expect our EBITDA level should be definitely still Rs.8,000 crores plus next year, which should generate the cash flow of Rs.5,000 crores plus, and we are going to keep capex at minimum level less than Rs.2,000 crores, which is actually to complete our fourth unit and also maintenance capex, which should bring down our debt level which will be between Rs.42,000 to 44,000 crores and we will be around debt-equity a little over 2 and net debt-to-EBITDA also will be 5. This year we will be ending with (+6) almost 7, but next year we will be around 5. This is our overall plan which I thought I must explain you before you start asking me.

Now, open to you for questions.
Moderator: Thank you. Participants, we will now begin with the question-and-answer session. The next question is from the line of Bhavin Sachdev from Enam Holdings. Please go ahead.

Bhavin Sachdev: Juts on the 3400 MW, you said that EUP-II only the one unit of 600 MW will operate around 60 PL of waste on Coal India linkage?

K. Rajagopal: No, what I said, the second unit is 2x600, 60% of that, in the sense, say 400 is Tamil Nadu and Tamil Nadu also some additional we can increase and supply, we also have PPA from Kerala another 350, which is actually to start from ’16-17, but we will be working to see that they can prepone, and we also expect some more PPAs are going to get signed, and some we can also sell in bilateral. So, our target is to operate at 60% of 1200 MW. That is what I said.

Bhavin Sachdev: EUP-III you said one is already commissioned and second will be dependent on availability of coal…?

K. Rajagopal: Third unit: One, we have commissioned, one, we are yet to commission, that we will have to decide when we should really commission, and that unit also we will operate depending on the coal availability and selling opportunities available. That is what I said.

Bhavin Sachdev: On this Gare Palma 4/2 & 3 this was won on EUP-III, right?

K. Rajagopal: 2/3 for EUP-III.

Bhavin Sachdev: Tara block was won for which EUP?

K. Rajagopal: EUP-I.

Moderator: Thank you. The next question is from the line of Gaurav Khandelwal from Emkay Global. Please go ahead.

Gaurav Khandelwal: Two questions: First is on the Kerala bid. Since you had bid under the captive coal mine based category in the Kerala bid, if the coal mine is not available to you, and the fuel cost there was calculated automatically based on your captive coal rules which were there, so would the bid changed as it is automatically or how the things will work in Kerala?
K. Rajagopal: We will be working that, because that is actually if you see that EUP-II was always bid on linkage coal, it is not a coal mine but on the basis of the linkage.

Gaurav Khandelwal: But bid which you had done in case of Kerala was based on linkage only, that is what you are saying?

K. Rajagopal: Yes, correct.

Gaurav Khandelwal: Looks like that the fact that there have been a lot of court interventions on the coal mining previously and maybe government do not want to take any chance in terms of if there is any outlier, do you see a probability where government has just taken this process to court so that if it is approved by court, then government will not have anything to clear in future, so they start with a plain slate and therefore, the region why they have not accepted the bids?

K. Rajagopal: The government can only answer, I cannot speak for a government, but on our part since we have quoted the correct price and we have gone through the process and we are the winner and we are going to the court.

Gaurav Khandelwal: So basically in this context, you mentioned that in Delhi High Court you have petitioned for status quo on the mine. So the status quo remains you being the owner of the mine as it is today itself or status quo means that under the auction rules you should be awarded this mine?

K. Rajagopal: In the petition, we challenged that ours is not accepted, and since these mines are all valid up to 31st March and afterwards, not that these mines becoming a non-productive unit, so we said so that we should continue to produce and till such time decision taken properly, maybe they should allow the mine and use. I think we do not get into elaborate on that, let us stay with our main appeal that our bid has to be accepted.

Gaurav Khandelwal: The original intrinsic value which was estimated by the government, the reference is to the 10% of the intrinsic value or the whole NPV of the mine, the 24x when you calculated?

K. Rajagopal: Intrinsic value considered by the government based on the Coal India price, now the price was Coal India, that is the ceiling price of 700, that is fully forgone and then Rs.(-108). So, it is automatically going like that. So it is on the basis of the net present value calculated by the government, because government when they include
the NPV, they have not calculated any mine as a number, they have calculated on the basis of the grade by the cost of that from Coal India. So, it is on that basis.

Moderator: Thank you. The next question is from the line of Ayush Garg from SBI Bank. Please go ahead.

Ayush Garg: Sir, basically, regarding the coal sourcing front. Could you give more clarity on the quantification of the imported coal because I believe about 6 million tonnes of imported coal would be required in order to operate the plants, so do we have the logistics in place for that?

K. Rajagopal: As I said that our coal requirement will be met through a combination of e-auction and import as well as the linkage coal. A lot of imports come from our own mines in Mozambique and in Australia, and then we can also buy it from outside. We have already taken many actions to see that these logistics are in place and you can see that this is not some simple or easy thought, but that is the thought taken by the company to ensure that the company continue to be profitable and we are confident that that is in place and it will happen.

Moderator: Thank you. The next question is from the line of Dhaval Doshi from PhillipCapital India Private Limited. Please go ahead.

Dhaval Doshi: Just a question on Iron Ore. I believe there is a hearing today for liquidation of the Iron Ore inventory that is lying in the Sarda Mines. First of all, if you could help me with the exact quantum of inventory that is lying out there and what is the plan to use as in it will suffice us for how long?

K. Rajagopal: We have 12 million tonnes. Our stocks are traded stock and we expect that will come in our favor and immediately, we can start to bring into our plant and available to us.

Dhaval Doshi: Let us say we get the judgment in our favor. Do we assume that the pellet plant operations will be fully ramped up or we will limit our pellet production just in view of increasing our iron ore security for a longer period?

K. Rajagopal: No, I said in my opening presentation that we will double our pellet plant production. That is how our volume increase will happen in next year.

Moderator: Thank you. The next question is from the line of Ashish Kejriwal from Elara Capital. Please go ahead.
Ashish Kejriwal: Two questions from my side: One, how much maximum coal we can transport or we can import because as pointed out earlier also, that the nearest railway track is 55-60 Kms, so obviously, we have to get it through trucks, so in that case? Secondly, in case of Coal India starts to operate this coal block, whether there is a possibility of e-auction from there or can get a short-term linkage also?

K. Rajagopal: Regarding Coal India e-auction, we have to see how it happens. As I said, our requirements will be three combinations: e-auction, linkage and import. So, the quantity will be divided between these three. And as I said… while the details we can always explain later on, but for every source of coal, the logistics we have already planned. That much I can assure but for more detail, you can get it from our Investor Relations later on.

Ashish Kejriwal: So sir, when you are talking about the logistics plans all, you are including coal for your steel business also, because 12 million coal is required?

K. Rajagopal: No, in Raigarh we need only some 3-4 million tonnes and in Angul yes, we need 4.5 million tonnes but Angul is in a different location, this is in a different location, same way even Tamnar power plant is in the same area but a little bit different. Because Angul is in Odisha and it already some kind of a linkage for our captive power plant, so now we start using fully.

Ashish Kejriwal: I was looking more into Raipur only?

K. Rajagopal: That is what I am saying, Raigarh as I told you, we already taken action to reduce our thermal coal consumption and our thermal coal consumption requirements will be curtailed by 40% from the existing level. So to that extent, we have already planned how to get the linkage coal or imported coal or e-auction coal.

Ashish Kejriwal: Whatever imported or e-auction coal which we are assuming, what could be the landed cost for coal?

K. Rajagopal: The landed cost are varying, but on an average basis I must say it is Rs.2000, we have made calculation, take all full, at least I can say that when pooled together, pooled value will be around Rs.2500 and we estimated all our calculations on that basis and as I was always saying that our EBITDA will come down from the current level of 31-32% to 25-27%, that will be an impact, but volume will increase to reduce the EBITDA. So that is what we always say and I maintain that.
Moderator: Thank you. The next question is from the line of Pallav Agarwal from Antique Stock Broking. Please go ahead.

Pallav Agarwal: Just wanted some clarity on the Eastern mines where royalty could have been increased. So now would coal come under the higher contribution to the DMF, is there a final clarity on that point?

K. Rajagopal: Actually, the same question was put to the chief of select panel who are on the MMDR panel. He has clarified that since that applies to all the surface mineral material, coal is also included under that. That is what the current explanation is, he is the chief of select panel of MMDR, on TV he has mentioned. So I have to take that as of now.

Pallav Agarwal: But at least for the power part, this increased royalty would be a pass-through in your PPA. So really it would not impact you, right?

K. Rajagopal: You are right.

Moderator: Thank you. The next question is from the line of Navin Sahadeo from Edelweiss Securities. Please go ahead.

Navin Sahadeo: Two questions: Firstly on the Sarda Mines like in the previously asked question, somebody mentioned 12 million tonnes of inventory that case is being heard today? Similar lines, what is the update on the resumption of mining at the same Sarda Mines — is that hearing also expected today and when do we expect these mines to restart?

K. Rajagopal: One is we are directly involved where our stock to be allowed to be lifted, that is happening on 25th or 27th, it was supposed to be today but I think it got deferred. And the other one is I think in this week. Before this week end both will be heard.

Navin Sahadeo: With respect to the PPAs, of course, our bid got rejected as the government said they are of low value, on an average if I assume the reverse bidding that has happened, let us say about 500-700, there are also talks about the capacity charge being capped. Now, in light of all these, let us say, when the next let us say in round-3 of auctions, on an average, the negative bidding falls in the range of 500-700 so that the government does not really want to call at an outlier, let us assume that 500-700 is a number which the government is satisfied with and also they are talking about some
cap on the capacity charge. In light of all these, where do you see a comfortable rate for PPAs being signed for the rest of the capacity?

K. Rajagopal: In the normal course, everybody has to realize variable cost and fixed cost, the first point. Second point, these costs are different for different people depending on the capital cost, depending on the delay in the cost, depending on the financing cost, and depending on the source, all are different. That is what we always maintain that either coal mine auction prices or the fixed costs or the final price in the PPAs must be self-sustainable in the long run, otherwise it will not be viable. So, while I do not want to comment on what is the correct price not to be called as “outlier” either 500 or 700, these prices have to be discovered at each of the auction, that is why the auction for each mine, otherwise, there can be only one price for all. So, we have to see that. And also, whether government will give ceiling for capacity swap, is also speculation as of now, is not yet clear. But as Mr. Uppal also said, even on the variable prices, more clarity is yet to come and we expect that these things will come, and finally, all these will become economically sustainable but we at JSPL have always kept our focus on how all the costs and prices are to be sustainable and our main strength is to operate at a high level of PLF.

Navin Sahadeo: I was just maybe asking for a guidance, what is approximate range in which you would hope to sign all PPAs going forward?

K. Rajagopal: Yes, we will keep all things in our mind before we would go. Many of them are emerging but we are very well focused.

Moderator: Thank you. With this I now hand over the floor back to Mr. Sanjay Jain for his closing comments. Mr. Jain, over to you.

Sanjay Jain: Thank you, everyone. Mr. Bala, would you like to many any closing comments?

Balasubramanyam: At the first instance, we would like to thank the investors and the analysts who have at a short notice come and attend our conference call. We hear that more than 300 people have logged into this call. This gives us a lot of confidence. The purpose of this conference call was to actually state what government was saying that the bid price what we have quoted was low was not the case. The second thing we wanted also to convey to you what are legal courses that we intend to resort to in order to get coal blocks back. The third intent was what was our short-term and long-term strategy in order to secure our coal requirement. JSPL has created a strong business environment and we continue to believe that we will be able to secure our raw
materials in future and our operations would continue to be a profitable one. We at investor relations team, are always available for you for any clarifications that you would require, please do not hesitate to call us and we would be very happy to clarify. On behalf of the JSPL, we would thank once again each one of you who have attended this conference call.

**Moderator:**

Thank you very much, sir. Ladies and Gentlemen, on behalf of Motilal Oswal Securities Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.