



स्टील अथॉरिटी ऑफ इण्डिया लिमिटेड
STEEL AUTHORITY OF INDIA LIMITED

CA-17(44)/2022-23

15th November, 2022

The General Manager (MO) Bombay Stock Exchange Through BSE Listing Centre	The Asstt. Vice President National Stock Exchange of India Ltd. Through NEAPS
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Sub: Transcript of conference call held with Analysts & Investors on 11th November, 2022.

Ref: Regulation 46 of SEBI(LODR) Regulations, 2015: (Security ID:SAIL).

Dear Sir,

This is in continuation to our letter No.CA-17(44)/2022 dated 11th November, 2022, intimating the link to the Audio Recording of the Conference Call held on 11th November, 2022.

Transcript of aforesaid Conference Call is attached herewith.

Thanking you,

Yours faithfully,
For Steel Authority of India Limited

(M B Balakrishnan)
CGM(Finance) & Company Secretary

Encl: As above



“Steel Authority of India Limited Q2 & H1 FY23 Earnings Conference Call”

November 11, 2022



MANAGEMENT: SHRI. ANIL KUMAR TULSIANI – DIRECTOR (FINANCE)
**MODERATOR: MR. ASHISH KEJRIWAL – NUVAMA WEALTH
MANAGEMENT**



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Moderator: Ladies and gentlemen, good day and welcome to the SAIL Q2 FY23 Earnings Conference Call hosted by Nuvama Wealth Management. As a reminder, all the participants' 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 for an operator by pressing "*" and then "0" on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ashish Kejriwal from Nuvama Wealth Management. Thank you and over to you.

Ashish Kejriwal: Good afternoon everyone. On behalf of Nuvama Wealth Management, we welcome you all for the Q2 FY23 post result conference call of Steel Authority of India. We are happy to host Mr. Anil Tulsiani – Director (Finance) along with his team, who will be representing SAIL in this call. Now, I would request Mr. Tulsiani for his opening remarks, and thereafter, we will open the floor for Q&A. Over to you, sir.

Anil Kumar Tulsiani: Good afternoon everyone. I welcome you all to the investor concall on the financial results for Q2 and H1 financial year '23 of SAIL. The last few months have been quite challenging for the economies across the globe in general and the steel industry in particular. Though demand for steel in India has been relatively better, the impact of falling prices of steel coupled with the spike in the prices of raw materials and inputs has put the margins for Indian steel producers under severe stress as visible from the results of the companies published so far.

I would briefly take you through the results of the company before we take up the questions. Let me start with the economic scenario. The global economy has been waging a severe battle with the inflationary forces in the post-COVID era, with economies like the US taking corrective actions by tightening the fiscal and monetary policies. The GDP growth rates have been continuously reducing. The scenario has been getting worse with China's growth slowing down on the back of real estate sector related issues. The Russia-Ukraine conflict has accentuated the inflation problem due to supply chain disruptions. Agencies like the IMF and World Bank have revised the projected GDP for various economies downwards. The IMF, in its latest world economic scenario, has reduced the global GDP forecast to 3.2% in calendar year 22 and the rate is further expected to slow down to 2.7% in calendar year 23. The major advanced economies which include countries like the US, Germany, Japan, UK, France are also seeing projected growth rates curtailed significantly. Emerging economies are only slightly better than their advanced counterparts are. The silver lining for us, however, is the growth trends for the Indian economy. The economy is placed much better and is pegged to grow in the range of 6% to 7% over the next year in various reports like IMF World Economic Order, World Bank projections, and monetary policy committee of RBI.



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Though the Indian economy is akin to the world economy, it has been seeing a downward trend in GDP projections. Yet, the projections of growth in the 6+ range mean India will remain amongst the fastest growing major economies. The domestic industries will however have to guard themselves from the input threats. The global steel industry has seen a decline in demand and corresponding realization for the past few months.

With China seemingly cutting down its production in the wake of environmental concerns, it has had an impact on the prices of iron ore. The concern also remains in the area of coking coal which remains quite volatile. The fossil fuel which is a major input of the steel industry earlier saw unprecedented high price in the range of \$670 to \$680 per tonne for HCC during February to May following the Russian-Ukraine war. Thereafter, the prices saw a substantial reduction from June-July onwards having come down to levels of Rs. 200 per tonne. However, they have now again started inching up. The forces of inflation, uncertainty, etc., have all had a negative impact on the global steel industry.

The impact has percolated to the Indian market as well. The prices of steel, which were at a peak during April have considerably reduced by around 25% to 30% with Flat products feeling relatively much more greater adverse impact than the Longs since it is guided by the international markets. In the Longs segment also, the prices have declined of late as one of the major components, i.e., scrap, using EAF-DRI route has seen prices coming down to USD 350 level CFR Turkey, lately. The demand projection for steel in India, however, remains upbeat with the domestic steel industry recording a growth of 5.3% in crude steel production during April to October '23 over CPLY. The consumption of steel has grown by 11.4% in the country during this period. The company has recorded its best ever H1 production performance for hot metal, crude steel, as well as saleable steel during H1 financial year '23. The sales in the domestic market by CMO have grown by 9% during H1 financial year '23. Overall sales have, however, been affected due to lower exports during the period. Exports are down by around 5.5 lakh tonnes during this period.

The numbers during H1 and Q2 financial year '23 vis-a-vis CPLY are as follows. Production: In H1 FY 2022-23, crude steel 8.63 million tonnes; in H1 FY 2021-22, 8.24 million tonnes; Q2 FY 2022-23, 4.3 million tonnes; Q2 FY 2021-22, 4.47 million tonnes. Saleable steel: H1 FY 2022-23, 8.17 million tonnes; H1 FY 2021-22, 8.09 million tonnes; Q2 FY 2022-23, 4.09 million tonnes; Q2 FY 2021-22, 4.32 million tonnes. Sales volume: H1 FY 2022-23, is 7.36 as compared to H1 FY 2021-22, it was 7.61. The financial performance has seen growth in the top line whereas the profitability has taken a hit in line with the industry trends. The revenue from operations for H1 FY 2022-23 is at Rs. 50,275 crores as compared to Rs. 47,469 crores in CPLY. EBITDA is at Rs. 3,780 crores for H1 as compared to Rs. 13,921 crores in H1 FY 2021-22. The PBT is at Rs. 523 crores as compared to Rs. 10,898 crores in CPLY. And the profit after tax is at Rs. 391 crores as compared to Rs. 8,154 crores in H1 FY 2021-22.



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The average realizations during H1 remained higher than the CPLY period, though there has been a substantial reduction during the period. This has helped in revenue growth in H1 compared to CPLY. Profitability has, however, been adversely affected due to higher cost, especially of coking coal. With the coking coal prices coming down, we expect the cost of production to also correct and enable us to deliver better results in the coming quarter.

With these words, I hand it back to Mr. Kejriwal for opening the question & answer session. I am sure you all have lots of queries on the performance.

Moderator: We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Amit Dixit from ICICI Securities. Please go ahead.

Amit Dixit: I have two questions. The first one is essentially relating to the waterfall chart that you have given in slide #29. If I see there, unlike your PL, you have gained from raw material usage and input price/cost. In fact, input price/cost is almost a gain of Rs. 1,994 crores. I just wanted to understand better where did this gain come from because coking coal prices for your peers at least didn't correct substantially and also raw material usage where this benefit has come from?

Anil Kumar Tulsiani: When we compare the quarterly results, the prices of coal have come down in the second quarter as compared to Q1. I will give you the figures. The imported coal prices, which were at round about 39,000 in Q1, they were at the levels of round about 33,000 in Q2.

Amit Dixit: So, this was the chief driver of this Rs. 1,994 crores?

Anil Kumar Tulsiani: Yes.

Amit Dixit: And what about the raw material usage? Where this benefit of Rs. 550 crores came from? Is it due to improvement in techno-commercial parameters or something else?

Anil Kumar Tulsiani: Yes, it was basically because of the techno-economic parameters.

Amit Dixit: Sir, what kind of coking coal costs are we expecting in Q3 from a base level of 33,000?

Anil Kumar Tulsiani: We expect a reduction of around Rs. 5,000 in Q3, it is almost about \$60.

Amit Dixit: The second question is on the working capital buildup. Your debt has gone up significantly if I compare it in the first half of the year and working capital buildup is also quite significant. So, what kind of relief do we expect in H2? And what would be the debt level that you will guide by the end of FY23?



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Anil Kumar Tulsiani: Actually, the debt level increased by, you can say, around nearly Rs. 9,000 crores in the first quarter. And in the second quarter, it has gone up by round about Rs. 5,000 crores. But in the third quarter, we expect not much of an increase in the debt levels. And in the fourth quarter, we will try to reduce that to some extent. But it may not reach the levels which we had at March '22, but surely, we would try to reduce it to some levels of round about, you can say, Rs. 25,000 crores to Rs. 26,000 crores.

Moderator: The next question is from the line of Pinakin from J.P. Morgan. Please go ahead.

Pinakin Parekh: Sir, my first question is, if I look at the plant level profitability, surprisingly, Durgapur and ISP have seen a positive EBIT versus a negative EBIT in the last quarter, while the other plants have negative EBIT. Sir, can you show us what are the drivers of this improved profitability seen in Durgapur and ISP? Because historically, they are Long product segment plants.

Anil Kumar Tulsiani: What has happened is that the Long product prices have not been much affected because of the shortage of thermal power. The secondary steel producers also who are into making these Long products, they could not reduce their prices whereas the Flat product prices have been greatly impacted during this particular quarter. That is why, our other Flat product plants which are Rourkela, Bokaro, and to some extent, Bhilai, they have been severely affected by the fall in the prices of the steel products whereas the Long products prices have not gone down to that extent.

Pinakin Parekh: Sir, my second question is, we are entering the seasonally busy period for construction demand in India. There were some reports about companies raising prices in the month of October. Given this backdrop, sir, how do you see the sales realization trend over the next few months versus the average realizations that the company saw in the second quarter?

Anil Kumar Tulsiani: The realizations may not be better as compared to the second quarter. We may try to keep it at the same levels in the third quarter.

Moderator: The next question is from the line of Sumangal Nevatia from Kotak Securities. Please go ahead.

Sumangal Nevatia: First question is on the other expenses. There is a sharp decline of almost Rs. 1,000-odd crores. And the employee cost run rate is also lower this quarter. Are there any one-offs or if it's a sustainable gain? If you could just explain what are the drivers?

Anil Kumar Tulsiani: There is a one-off also. It is in the case of royalty. What is happening is that in the case of our Odisha group of mines, we were paying royalty at the highest rate for lumps for fines also. But in the month of July or August, the government had come out with a notification that the highest rate of lumps will not be applicable for fines. It will be the highest rate of fines which



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will be applicable for fines only. This has a one-time impact. It is only applicable from April '22 onwards. It had an impact of round about Rs. 400-odd crores in this particular quarter. Of course, out of Rs. 400 crores, you can say Rs. 200 crores is for this quarter and the Rs. 200 crores is for the earlier quarter. And the other thing which is there is that because of the rising dollar rate, we had a foreign currency loss of round about Rs. 570-odd crores in Q1, which we could reduce to round about Rs. 280 crores in the second quarter. These are the major things where the miscellaneous expenditures have come down. And regarding salaries and wages, this should be the gradual trend of gradual reduction in salaries and wages over the years.

Sumangal Nevatia: Just to understand, the ForEx, you said from 570, it has gone to 280. So, the gap which is 290 is a one-off gain which is recorded in the other expenses?

Anil Kumar Tulsiani: It is not a one-off gain. Actually, it was an expense. It was a major expense in the last quarter. That expense has come down.

Sumangal Nevatia: And the royalty you said Rs. 400 crores is the one-off gain, which is recorded in 2Q?

Anil Kumar Tulsiani: The normal royalty will now come down by Rs. 200 crores per quarter, you can say. But for the first quarter also, we got the benefit in this quarter, the second quarter.

Sumangal Nevatia: And the second question on the working capital buildup of almost Rs. 15,000 crores. What sort of normalized level of working capital do we expect? Because this sort of increase we have not seen in any of the peers. And if I recollect, the fourth quarter last year or the entire last year, we had reduced our working capital very substantially. What is the sustainable level, if you could explain, sir?

Anil Kumar Tulsiani: This increase is basically because of the increase in the price of imported coking coal. We have shifted to LC-based payments. So, we had our payment cycle extended. Because of that, this working capital increased. But if you really see, I think from Q1, the position has improved marginally.

Sumangal Nevatia: And sir, lastly, for the full year CAPEX, what is the guidance for this year and next year?

Anil Kumar Tulsiani: We have spent around Rs. 2,000 crores so far on the CAPEX. And we have targeted to the extent of around Rs. 6,000 crores for the entire year.

Sumangal Nevatia: And just one last small clarification. We have a cash tax of around Rs. 300-odd crores. Our understanding was that we have accumulated losses. So, what is our guidance for the cash tax payout?

Anil Kumar Tulsiani: That has been fully adjusted.



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- Sumangal Nevatia:** So, net-net, we will not be paying any tax on a cash basis this year, right?
- Anil Kumar Tulsiani:** No, we will be paying on the cash basis from this year onwards.
- Sumangal Nevatia:** And about 25% is what we should build in?
- Anil Kumar Tulsiani:** Yes, 25%.
- Moderator:** The next question is from the line of Abhishek from HDFC AMC. Please go ahead.
- Abhishek:** Just one question, sir. If you look at the steel price movement in the last 3 to 6 months, there has been a very sharp reduction in prices in the international market, including China, Japan, and Korea. But if we look at the domestic prices, the correction has been limited. And because of that, there is a high premium that the domestic prices are kind of commanding especially on the Flat side. I just wanted to understand your view on how the situation should pan out, and how do you see the steel prices moving from here?
- Anil Kumar Tulsiani:** The prices in Q3 should be more or less at the same levels as Q2. There was a sharp decrease as compared to Q1 in Q2. But we feel that in the Q3, it should be more or less at the same levels as Q2.
- Abhishek:** That is based upon the prices in October and November. And what is your sense of how the prices should move in December and January? Will there be an alignment to the import prices or you would expect the prices to remain at a strong premium to import parity prices?
- Anil Kumar Tulsiani:** It is very early to say all these things because the thing is that basically the Long products, we should see prices firming up a bit, but all these things also depend on another factor which is the coal prices. If the coal prices also start shooting up – because they have gone up in the past 1-1/2 months substantially by nearly \$60 to \$70. If the similar trend continues, maybe it will surely have an impact on the prices of the steel also.
- Abhishek:** And sir, one more question. On the coking coal, we saw a decline which happened 2-3 months back, and you are guiding us for a lower coking coal in 3Q, but the spot prices have again moved up. So, how should we think about coking coal going up here? Then, that impact will come in the fourth quarter?
- Anil Kumar Tulsiani:** Yes, it will come in the fourth quarter. It may not come in the third quarter because the cycle is of roundabout, you can say, 3 months. When we import from the USA, it is round about 3 months and it works out round about 2 to 2-1/2 months for the Australian coal. So, we will be getting the benefit of the imports which we have made in the month of say, August and



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September, we will get the benefits of that. And maybe whatever coal we are procuring now, it will be shifted over to the fourth quarter.

Abhishek: Sir, on the spot price that we are buying, you mentioned it's going to 28,000 in the third quarter. Spot prices are higher by how much amount, sir?

Anil Kumar Tulsiani: Around 31,000.

Moderator: The next question is from the line of Arijit Dutta from Kotak Mutual Fund. Please go ahead.

Arijit Dutta: One question from my side. Our understanding is for the government contract, which we directly sell to the government, the prices are a bit sticky and the changes come after a lag. If you can guide us what government side contract that we can expect in the upcoming years, especially to the Railways? Whether we have already taken the hike that has already been when the steel prices were skyrocketing or we took that hike and a dip that is going to come in? Your views on that.

Anil Kumar Tulsiani: Are you talking about rail pricing?

Arijit Dutta: Yes, which we supply to the government agency, for example, the Railways.

Anil Kumar Tulsiani: Majority of our supplies are in the form of rails. We supply nearly 1 million tonnes of rails to the government. And besides that, there are small purchases made by them, which are not very significant. This rail pricing is actually finalized on an annual basis. At the moment, we are getting it on some ad-hoc basis. We get a price at the beginning of the year. The ad-hoc price has been fixed at round about Rs. 67,500. And the final price, we will be submitting for 2022-23 in the year 2023-24. Now we will be submitting the price for 2021-22 shortly. Whatever is the price which is finalized between us and the Railways, that benefit or if there is any reduction will be in the year in which we actually get the final pricing from the Railways.

Arijit Dutta: In that case, when we will be doing the finalization, say, at the end of the year? This 1Q FY24 we will be getting some prior year adjustment there, right?

Anil Kumar Tulsiani: We will be submitting it now. Actually, we have already submitted for 2020-21, and we will be getting the final pricing of that probably in this financial year.

Arijit Dutta: And that will be on a gain side in case if I assume that your prices will be accepted?

Anil Kumar Tulsiani: I really don't know, but we have submitted which is a higher price to the Railways. And let us see. We finalize that then mutually. We expect a higher price, no doubt about that.



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- Moderator:** The next question is from the line of Vishal Chandak from Motilal Oswal. Please go ahead.
- Vishal Chandak:** Sir, my question was with regard to the CAPEX plan. You have mentioned that so far you have spent about Rs. 2,000 crores, and your target for the year is about Rs. 8,000 crores. That means incrementally Rs. 6,000 crores will be spent.
- Anil Kumar Tulsiani:** It is around 6,000 crores.
- Vishal Chandak:** Rs. 6,000 crores is for the full year?
- Anil Kumar Tulsiani:** Yes, for the full year.
- Vishal Chandak:** So, additional Rs. 4,000 crores that you will be spending between October and March. If you could just guide us on what kind of projects you are planning to spend, that would be quite useful because as I understand, there are no more volume expansion projects that are in the pipeline. So, what kind of productivity improvement are we looking at, sir?
- Anil Kumar Tulsiani:** We are putting up our casters in Bhilai and even in Rourkela. And besides that, we are having some projects of major refurbishings of blast furnaces and coke ovens also, which are coming up this year. Besides this, normally what happens is there are many small scales which have been taken up in all the steel plants. And some other major projects are there like some water pipeline projects to the government and providing additional power for our plants on deposit term basis, which are also being taken up this year.
- Vishal Chandak:** One followup on this point. We have incurred about Rs. 60,000 crores plus on modernization and expansion. I would presume that this would have covered blast furnace, caster, and coke oven batteries. Do you see that we have still a lot more modernization plans pending?
- Anil Kumar Tulsiani:** What is happening is that in the modernization plan, basically, 3 blast furnaces came up. One at IISCO Burnpur, the other one at Rourkela, and the third one at Bhilai. The other blast furnaces which are there, say at Bokaro, then there is one at Durgapur and in other units also and even in Bhilai and all, wherever there are blast furnaces, they are older blast furnaces. We are refurbishing them because they have to be refurbished also within certain timelines. Say, 20 years down the line, you have to completely refurbish it. And then also we are taking up certain capacity enhancement, increasing the volumes of the blast furnaces also. Those are the ongoing projects which are taking place.
- Vishal Chandak:** Sir, instead of refurbishing the old blast furnaces, does it not make more sense to rebuild a new large blast furnace with matching casting capacity? I am sure we would look into that aspect as well.



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- Anil Kumar Tulsiani:** What do I do with the existing casting capacity which is there? I have to use that also.
- Vishal Chandak:** We can add more casters, right? Ultimately, it goes from the SMS into casting. Adding more casters will solve the existing problem also. Also be used and the new casters can also be deployed.
- Anil Kumar Tulsiani:** We have got our own expansion plan in all the plants. In that only, the new blast furnaces will be coming up with matching casters and with matching mills and all.
- Vishal Chandak:** My limited point was that instead of refurbishing smaller-sized blast furnaces which are more expensive, can't we look at putting up a bigger sized blast furnace which would be more economical going forward?
- Anil Kumar Tulsiani:** Yes, those are in the pipeline. That is our expansion plan. These are basically removing some bottlenecks or refurbishing the existing blast furnaces.
- Moderator:** The next question is from the line of Ritesh Shah from Investec. Please go ahead.
- Ritesh Shah:** Two questions, actually, three. Sir, first question is how are we looking at the government's PLI scheme? Have we put any proposals? How should one read into this?
- Anil Kumar Tulsiani:** In this, we have submitted our applications mainly for our rails.
- Ritesh Shah:** Sir, can you indicate the quantum of capacity and CAPEX that we are looking at? And what sort of benefits could be expected out of it?
- Anil Kumar Tulsiani:** Actually, it is an existing thing where we are developing new products. The head hardened rails are there, which we are developing. And new profiles are also there. It is basically for that we have applied in the PLS scheme.
- Ritesh Shah:** And sir, what sort of benefits can one expect if the proposal goes through?
- Anil Kumar Tulsiani:** We will get an improved NSR for that also. The price of these particular rails will be substantially higher.
- Ritesh Shah:** Sir, the second question is on export taxes. Any thoughts over here? It has been lingering since quite some time.
- Management:** Export taxes, this is purely on the government to decide upon it what is to be done. We have always been requesting the government to waive-off these taxes, but it is basically the government who has to decide it, not us.



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Ritesh Shah:

And sir, last question was on iron ore integration. We had earlier indicated that we would be looking at another 13 million to 15 million tonnes of capacity. Specifically on iron ore, if you can indicate mine-wise what the progress has been – I haven't heard on this variable from the management since quite some time. Specifically, if you can touch upon Meghahatuburu, Bolani, and Gua – I think these are the three larger ones – and the incremental expansion plans of around 15 million tonnes.

Anil Kumar Tulsiani:

Coming to Bolani first, Bolani is now at a capacity of almost 7 to 7.5 million tonnes. We are still going ahead with a plan of having a 10 million tonne capacity out there. It is going on. In probably, say, 2 years' time, we will be able to produce at that capacity. Coming to Kiriburu and Meghahatuburu, the reserves out there have depleted. So, we are now going in for.... There are two new areas out there, the south and the central blocks. Once these blocks open, the capacities are ready in these mines. Kiriburu has got a capacity of 5.5 million tonnes and Meghahatuburu has a capacity of 6.5 million tonnes. Both these capacities can be operated once these new blocks are open. Out there also, we have got a lot of clearances and we expect production to start from there in maybe a year or so' time.

And coming to Gua, the board has declared a mega project out there of operating the mine through a mine developer and operator, where we will have production of 10 million tonnes out of which 4 million tonnes will be pellets, 4 million tonnes will be fines, and 2 million tonnes will be lumps. This project also, the Board has accorded in-principle approval, and we are working on tendering out for the same.

Ritesh Shah:

And sir, Rowghat and Chiria?

Anil Kumar Tulsiani:

Chiria has now become a non-mining zone. We are after the government; we are trying to convince them to allow us to do some mining out there. And Rowghat is moving at a good pace now. We have appointed a contractor out there. We have deployed a contractor for doing interim mining out there. Already, I think a couple of racks of iron ore has also been dispatched from there. And we are in the process of.... More or less, most of our clearances are available. And we have appointed an MDO also out there. So, things will move fast over there. The only thing is the rail line which has to be brought till Rowghat. Out there also, a substantial job has been completed up to 60-kilometer mark – It's a total 93-kilometer line – and then from 83 to 93 kilometers, the line has been completed. The remaining line will be completed maybe in a year or so.

Ritesh Shah:

And sir, last question on the incremental expansion, 15 to 17 million tonnes, what we had indicated earlier. Any update over there?



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Anil Kumar Tulsiani: For this, we have appointed a product consultant. The product consultant will be giving what is the future requirement for the products, say, 2030 onwards. He will be giving his thing. And besides that, we have already also appointed a consultant for our IISCO Burnpur plant where he will be also submitting his report about how we go ahead for expansion in IISCO Burnpur.

Moderator: The next question is from the line of Prashanth Kota from Emkay Global Financial Services. Please go ahead.

Prashanth Kumar Kota: Sir, in this quarter, what would have been the inventory losses that would have been there? Around Rs. 500 crores to Rs. 800 crores is it a right number or more or less, sir, if you could guide on that – the high-cost inventory which got liquidated, the losses on that.

Anil Kumar Tulsiani: Could you explain what you mean by inventory losses?

Prashanth Kumar Kota: Because the higher cost inventory sitting at the beginning of the quarter, which should have been sold out this quarter.

Anil Kumar Tulsiani: Offline we will get back to you on this.

Prashanth Kumar Kota: And my second question is, if I remember correctly, 3 quarters ago, we had a line of acceptances or some kind of a facility for coking coal. It was advantageous to our working capital debt in terms of pulling that lower. Have we done away with that acceptances line which does not necessarily have to be reported as debt? Is there some change in your strategy there? Am I on the right track?

Anil Kumar Tulsiani: We still have our payment terms similar in case of coal, which was there earlier, i.e., having a 2 to 3 months of line of credit from the coal suppliers. That still continues on now.

Prashanth Kumar Kota: There is no change around that?

Anil Kumar Tulsiani: No changes there.

Prashanth Kumar Kota: And sir, lastly, since the sector is still within a challenging space and whenever there is a possibility if you could align your CAPEX to the actual profitability on the P&L side, it will help everyone – SAIL as a company and also the investors. Is that the right point to make?

Anil Kumar Tulsiani: We have noted the point.

Moderator: The next question is from the line of Somaiah from Spark Capital. Please go ahead.



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Somaiah V: The first question is on the 4 million tonne sales that we have done in this quarter. How much of this would have been a part of contracts? I am just trying to understand the quarterly fluctuations in prices, to what extent, because of the contract insulation, has not actually impacted – the quantum. You did mention about rails 1 million tonne, I presume that is for the annual. That probably would not have been impacted. Similar to that, to what extent do we have contracts? And what are the time periods of those contracts?

Anil Kumar Tulsiani: We don't have many such contracts. We basically do it on a monthly pricing system.

Somaiah V: Apart from rail, mostly we can think about it to be on a monthly basis. Is that the right way to....?

Anil Kumar Tulsiani: Yes, mainly on monthly pricing system. There may be some contracts, but that is a very small quantity. It is a very small quantity which may be there, but otherwise, it is mainly monthly pricing system.

Somaiah V: Second thing, on the rail which you mentioned. Let's say, in case the prices get revised on the higher side, the accounting happens in one single quarter when we get the price confirmed. That's the way it gets done.

Anil Kumar Tulsiani: Yes. It's like that only.

Somaiah V: For FY22 and FY23, we have submitted or we are yet to submit?

Anil Kumar Tulsiani: For 2020-21, we have submitted it already and it is nearing finalization. And for 2021-22 also, we will be submitting shortly. Actually, the Railways normally advise the CA/Cost to take the information from us, then only we are supposed to submit it. This intimation by the Railways has been given to the CA/Cost at the end of October. So, we will be submitting it shortly.

Somaiah V: One final question on the realization part. Our NSR is down, close to 14,000 a tonne Q-o-Q from 76 to say 62. Between Flat, Semis, and Long, if you can provide some color during the quarter, where the maximum impact was? And how is it trending currently?

Anil Kumar Tulsiani: Now in Q2, the Flats and Longs are more or less the same.

Somaiah V: The difference that came in the quarter was mostly led by Flat and to a small extent by Long, because you did mention that Long prices are not corrected. So, I was looking for which had kind of really weighed heavily on the 14,000?

Anil Kumar Tulsiani: Basically, what has happened is that the Flats which were hovering in the range of 70,000 and above have fallen drastically whereas the Longs have been more or less at similar levels.



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- Moderator:** The next question is from the line of Pratim Roy from B&K Securities. Please go ahead.
- Pratim Roy:** I have only a few questions. First of all, the inventory currently stood at around Rs. 28,000 crores, and the working capital has also gone up significantly. You mentioned in the presentation, that is showing that we are getting a raw material price benefit. My question is, how these things will pan out? My question that whether we are holding some high-value inventory which we are going to release in the next quarter or maybe next to next quarter or we are procuring current prices and we are blending that so that we can maintain the margin? If you can throw some light on that?
- Anil Kumar Tulsiani:** Our raw material inventory is on a weighted average cost basis. So, over the year, it smoothens out.
- Pratim Roy:** Over the year, it is easing out gradually, right?
- Anil Kumar Tulsiani:** Yes, right.
- Pratim Roy:** What is the current NSR? You just mentioned it is 62,000. Is this correct understanding?
- Anil Kumar Tulsiani:** The current NSR for the quarter was in the range of Rs. 57,000 to Rs. 58,000.
- In the previous question, I stand corrected. The Long products prices had fallen by round about Rs. 6,000 and the Flat products prices had fallen by round about, you can say, Rs. 13,000.
- Pratim Roy:** Rs. 56,000 to Rs. 57,000 is the current NSR?
- Anil Kumar Tulsiani:** Yes.
- Pratim Roy:** One more question, sir. On the inventory part, how much is the raw material inventory and how much is the finished goods inventory that the company is holding currently? Is that data available?
- Anil Kumar Tulsiani:** Finished is around Rs. 16,000 crores and raw material is Rs. 12,000 crores.
- Moderator:** We will move to our next question that is from the line of Chirag Singhal from First Water Capital. Please go ahead.
- Chirag Singhal:** Just a couple of questions. Firstly, on the employee expense. This is at a run rate of Rs. 18 crores per quarter. If I annualize this and take FY22 as the base, then it is roughly Rs. 1,600-odd crores per annum savings. Can we work with this number going forward?



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- Anil Kumar Tulsiani:** No, you should not because when you compare with last year, last year we had a one-time payment for the wage revision arrears also. That had a major impact. But when you go with this particular year, it is working to round about Rs. 2,800-odd crores per quarter. So, we can take this forward.
- Chirag Singhal:** Sir, the second question is on the raw material usage. In the quarter, we have reported that there is a saving of Rs. 550 crores from the raw material usage. Can you throw some more light on this? What exactly is this? And is it like a structural savings that will continue on the quarters going forward as well?
- Anil Kumar Tulsiani:** There has been a reduction in the usage of coal.
- Management:** Even the coke rates.
- Anil Kumar Tulsiani:** In the usage of coal, there has been a substantial reduction. Moreover, there is one more thing that we have started using a bit more of the indigenous coal and CDI. This has got a substantial impact on the usage of coal. Besides that, in the other elements also like iron ore and all, there has been some improvement in the consumption pattern.
- Chirag Singhal:** And sir, just one last question. It is more of a clarification actually. You gave some numbers on coking coal. I just wanted to clarify that did you mention the spot coking coal prices is around Rs. 31,000 per tonne?
- Anil Kumar Tulsiani:** The price which we had told you about Rs. 32,000 is for the imported coal, excluding CDI.
- Chirag Singhal:** That is the spot price?
- Anil Kumar Tulsiani:** It is not the spot price. It is basically the average consumption cost of imported coal.
- Chirag Singhal:** And this you were expecting it to reduce by Rs. 5,000 per tonne in the current quarter?
- Anil Kumar Tulsiani:** Yes, it should.
- Chirag Singhal:** And sir, what is the spot imported coking coal price?
- Anil Kumar Tulsiani:** Around \$310 today. That's the Argus and Platts index for hard coking coal.
- Moderator:** The next question is from the line of Falguni Dutta from Jet Age Securities. Please go ahead.
- Falguni Dutta:** Sir, I had two questions. One is, what is the current HRC price as we speak?



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- Anil Kumar Tulsiani:** It is round about Rs. 56,000 at Delhi.
- Falguni Dutta:** Sir, what would be our production and sales guidance for the year and for FY24?
- Anil Kumar Tulsiani:** Production will be round about 17 million to 17.5 million tonnes and sales will be also on similar lines around 16 million to 16.5 million tonnes.
- Falguni Dutta:** And the number for FY24, if we have any?
- Anil Kumar Tulsiani:** We have not yet finalized anything. We will just see what additional capacities are there or whether we are having major shutdowns or anything, and then we will finalize that during the month of February.
- Falguni Dutta:** If assuming we run all the plants at full capacity, how much should we be producing?
- Anil Kumar Tulsiani:** Crude capacity is around 19.5 million tonnes. So, we can think about saleable steel production of round about 18.5 million tonnes.
- Moderator:** The next question is from the line of Raashi Chopra from Citigroup. Please go ahead.
- Raashi Chopra:** Sir, just on the debt levels; what kind of net debt to EBITDA would you be comfortable with? Where is it at currently?
- Anil Kumar Tulsiani:** Always we are very comfortable when there is no debt. But then we cannot accept that on today's date. But we are planning that we should bring it down to round about Rs. 25,000 crores levels by the year-end.
- Raashi Chopra:** And currently, it is at about Rs. 26,700?
- Anil Kumar Tulsiani:** Rs. 27,400. That is as on 30th September.
- Raashi Chopra:** And the other question is, what is the level of inventory that you currently hold?
- Anil Kumar Tulsiani:** The inventory of finished goods is round about 1.1 million tonnes.
- Raashi Chopra:** So, you liquidated around 200 kt during the quarter – the inventory?
- Anil Kumar Tulsiani:** Yes.
- Moderator:** The next question is from the line of Rajesh Majumdar from B&K Securities. Please go ahead.



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Rajesh Majumdar: I just wanted one clarification on the NSR and the long-term rates. Barring the rail rates which are long term, the entire sales is on spot, if I understand. The 57-58 you talk about NSR, is excluding the 1.2 million tonnes on all the other sales. Is that a correct assumption?

Anil Kumar Tulsiani: The rail prices also included in that, but it is a very small component. It is round about 1 million tonne in the total 16 million tonnes of sales. And then, besides that, we don't enter into very many long-term contracts. The only contract which we enter into is with some PSUs who want it on a long-term basis. Otherwise, our's is mainly on a monthly basis.

Rajesh Majumdar: So, the 57-58 includes the rail, but what I want to say is that when you guide on similar prices in Q3, you are basically talking mostly about the spot market?

Anil Kumar Tulsiani: Yes, we are talking about the spot market.

Rajesh Majumdar: I am sorry to harp on this again. On the rail mill, again, when are we starting to produce head hardened rails? And what is the difference in the narration we can expect when we can see a sizable quantity of head hardened rails being sold from...?

Anil Kumar Tulsiani: The trials for the head hardened rails are going on. And regarding the pricing part of it, we are still in talks with the Railways because this is going to be a mutually agreed price based on what is our cost for that and what is the additional cost because it will surely have an impact on our productivity also. Considering all those things, we are in negotiations with the Railways. It will take some time to finalize it.

Rajesh Majumdar: Yes, that is fine, sir. I just wanted to know the expected volumes from the head hardened rails in, say, 1 or 2 years, whenever the things stabilize or it is finalized. What are the kind of volumes you are expecting from the HHR side given the fact that NSR are nearly 10k higher than what the current rail prices are, if I am not mistaken?

Anil Kumar Tulsiani: And it will basically depend on the requirement of the Railways, how much they want from us.

Rajesh Majumdar: But we still produce the entire 1.2 million tonnes in head hardened rails or...

Anil Kumar Tulsiani: Not possible.

Rajesh Majumdar: So, what is our capacity there? That's what I wanted to know.

Anil Kumar Tulsiani: It will be made from the same mills. It's not that it is going to be made from a different mill. The only thing is the operations will change. So, that will have an impact on productivity. That also we are in talks with Railways, but the quantity will not be that high. The entire 1.4 million



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tonnes will not be there. It will be a small quantity, maybe a couple of lakh tonnes or something like that to start with.

Rajesh Majumdar: 200 kt to 300 kt. Is that the correct assumption?

Anil Kumar Tulsiani: Yes, you can say 200 kt to 300 kt.

Moderator: The next question is from the line of Mohit Bhansali from Bonanza Portfolio Limited. Please go ahead.

Mohit Bhansali: First question is on the employees cost. You are gradually, I think, reducing your high-cost employees. Is it safe to assume that the downward trend will continue for another 2 to 3 years?

Anil Kumar Tulsiani: Yes, it should surely continue. Because the normal retirement in every year will be round about 2,500 to 3,000. That impact will surely be there. But of course, one thing is there that we have to consider that the DA is increasing every quarter and there are normal increments and increments from promotion. So, they will be more or less offsetting whatever retirements are taking place.

Mohit Bhansali: Right now, what is the employee strength in the quarter ending?

Anil Kumar Tulsiani: Around 60,700.

Mohit Bhansali: And the second question is regarding coking coal. Is there any improvement in production in your own mining like Tasra and Mozambique or are you looking for some other opportunities for the coking coal since it is a very high-cost raw material in your production?

Anil Kumar Tulsiani: Tasra, we are going in for a mine developer and operator. That is at a tendering stage. And Mozambique is doing well. It is gradually picking up and then I think we are getting round about 1 million tonne to 1.2 million tonnes from there. That is being utilized by us as well as RNL.

Mohit Bhansali: Any tie-up with the Indian company BCCL for production of coking coal?

Anil Kumar Tulsiani: Yes, we have got a tie up with them. We have got long-term contracts with them for supply of coal to us. So, they are being washed in our washeries as well as the washeries of BCCL. Also, there is a washery of Tatas, which is facilitating in washing the coal which is being supplied by BCCL and CCL.



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Mohit Bhansali: So, you are getting 1 million tonne from Mozambique and Tasra also you will be getting. It will be beneficial or it will be around the same cost what you are purchasing at the spot market?

Anil Kumar Tulsiani: In the case of Mozambique, it is guided by the Platts and Argus index. But there is a certain discount to the Platts and Argus index which is there. And in the case of our mines like Tasra and all, it will be on cost. That is going to be a real game changer in the future.

Moderator: Ladies and gentlemen, that would be our last question for today. I now hand the conference back to Mr. Ashish Kejriwal for closing comments. Thank you and over to you.

Ashish Kejriwal: On behalf of Nuvama Wealth Management, we again thank the management of Steel Authority of India for giving us an opportunity to host the call. Sir, any closing remarks you want to give?

Anil Kumar Tulsiani: We are keeping our fingers crossed that the NSR is maintained or it goes up during this particular quarter and the coal prices stabilize or come down to some extent. That will also help in improving the bottom line of not only us but of other companies also. We plan to bring down our borrowings to some extent by the year-end. And production, of course, in the second half, normally all the steel manufacturers just go in for higher production. We will also be endeavoring to get the best in the second half.

Moderator: Ladies and gentlemen, on behalf of Nuvama Wealth Management, that concludes today's call. Thank you all for joining us, and you may now disconnect your lines.