

**Jindal Saw – Q2FY20 Earnings Conference Call**  
**Hosted by Prabhudas Lilladher Pvt. Ltd.**  
**Nov 1, 2019 at 1:00 pm**

**Operator:** Ladies and gentlemen, good day, and welcome to the Q2FY20 Earnings Conference Call of Jindal Saw Limited, hosted by Prabhudas Lilladher Private 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. Please note, that this conference is being recorded. I now hand the conference over to Mr. Amit Khimesra from Prabhudas Lilladher Private Limited. Thank you, and over to you, sir.

**Amit Khimesra, 'Moderator':** Thanks Riyo. On behalf of Prabhudas Lilladher, I welcome you all on the Jindal Saw Q2FY20 post earning conference call. I thank the management for this opportunity. Today, we have with us Mr. Neeraj Kumar, Group CEO and Whole Time Director; Mr. Vinay Gupta, Global Head Treasury; and Mr. Narendra Mantri, Head Commercial and CFO. I now hand over the call to Mr. Neeraj Kumar, for his opening remarks followed by the Interactive Q&A. Over to you, sir.

**Mr. Neeraj Kumar – Group CEO & Whole Time Director, Jindal Saw Limited**

Good afternoon, friends.

Yesterday, we had our Board meeting and we have declared our Q2 and first half results both consolidated as well as standalone. I'm sure all of you have got a chance to look at the results and also the explanatory note, which we customarily circulate.

Highlights H1-2020 and H1 2019, reasonable growth in the given circumstances. If you look at now Q2 from a trailing-quarter perspective, it looks like a softer quarter, but if you look comparable quarter Q22019 and Q22020 results are similar. Coming through this quarter, the quarter has been soft on account of two-three main factors. There has been an unprecedented monsoon all around, which has disrupted lot of pipe-laying activities, especially in Northeast we have in fact, a few major contracts with Oil India. In few other regions also, the pipe-laying activity got disrupted and therefore the monsoons did play in slowing down the normal business or disrupted the normal business for this quarter, which resulted in a lesser than expected performance and also a little bit of pile up of inventory.

On the international front also, there are one or two contracts, where there is some delay, some hitch, some of which is causing some pile up of inventory, but we are hopeful that all this would get sorted out and we would have a catch-up because these inventories are with us, so we would have a catch-up, where we would be able to add all of these revenues before the year-end.

Otherwise, if you look at the overall performance, we have been able to get some advantage because of the new income tax regime. There is also a little increase in the financial charges, which is on account of the liquidity. That's another thing which now as a company we are beginning to feel a little, which is the general economic environment. There seems to be a

little bit of a bit of a slowdown. There seems to be a little bit of issue on liquidity. Therefore, our receivables are piling-up, working capital utilization has gone up, and consequently the financial charges have also gone up.

What I must reconfirm to all our investors that there is a delay, but we don't expect any write off, because even PSUs are now delaying some payments. So, there are no risk of money not coming; it's only a timing issue. Second, as a company, we have sufficient margins as another thing is this quarter we have got a reaffirmation of our rating which is AA for the long-term. So, we have enough working capital limits, we have enough liquidity for our company to run even in these difficult situations, but these are the three factors, monsoon, liquidity, and a little slow down in the economy, which has impacted our Q2 results.

We are not changing our year-end outlook, because we believe that in the next six months things would look up, things would improve, and we would be able to match up to our year-end expectations. This quarter you would also see an exceptional item. There is some write off, which is a continuing process of cleanup of all our legacy issues. This is for the last leg of Italy as we had mentioned that now we are truncating our Italy business to just trading. So, all the manufacturing activity, finishing activity, which was being carried out in Italy, now based on their new anti-dumping and all of those regulations, which have been in Europe, it doesn't make sense to continue that. We would be able to adjust that market from our Abu Dhabi and India facility. So, the Italy business would get truncated, so partly this exceptional item write off is on account of the winding down of the Italy business.

The second as you know, we had a subsidiary, which was fitting for DI pipes, Jindal Fittings. Now, we have had an arrangement with Jindal fittings, where now their operations would get more integrated with Jindal SAW, because as you know, these fittings are part and parcel of the DI-pipe business that we have; and therefore as a cleanup of their balance sheet, some write offs are on account of the legacy issues that we had in Jindal Fittings.

A few other things, which I'm sure we have been looking at and is on the horizon, you would be interested in is A, our understanding and way forward on Sathavahana. As you know, we have announced in the market, we have signed definitive documents with Sathavahana. Currently, we are working with the bankers to operationalize it. Hopefully, in this quarter we should achieve that. So, our effort would be to get Sathavahana operational under the arrangement that we have worked with before the year-end is what we would like to target. And we are hopeful that we should be able to do this during this quarter.

The last issue, which before I request Mantri and Vinay to put in their words and then we go for question-answers is NTPC. In NTPC, we have got interim award from the High Court, where the High Court has requested us to hand over the project assets, which is the Jetty and the shore crane as well as the conveyor system, which is on NTPC's land, which we have done, confirmed; anyway those would not have been put to any other use; they were to go there, so we have done that. The High Court has also asked NTPC to deposit INR500 crores with the court. The Order also suggests that money can be released to us on placement of bank guarantee. We have the necessary bank guarantee limits in hand the moment that happens and that is a precondition for NTPC to hear NTPC's appeal any further. So, NTPC would have now very little option to, if they want to continue with their appeal, if they want to continue

the legal system to process, then I think they will have to put this money, which can be released to us.

At this point of time, it would definitely add to the overall liquidity of the Group once we get this money. It says six weeks. Out of six weeks probably three-four weeks are already over. So, we expect things to happen some more liquidity to happen and things to move. Also, it gives you or it gives us a lot of comfort that directionally even now the courts are beginning to see the merit of the arbitration award that we have got. So, in terms of our confidence to win this award or to get the award finally go through the High Court, Supreme Court process, the confidence still remains. As you all know, judicial process sometimes can become a little time taking, but this is a positive step, where at least we are hopeful that we would get INR500 crores on this.

Rest, business outlook, we continue to be hopeful. Our order book is good in terms of quantity we have maintained. Value terms, it looks a little lower, because the raw material prices have softened and therefore the profitability etc would remain.

So to end, I have to express confidence that we are on track and we should be able to meet our year-end target; even though in Q2, we would have and want to have a little bit of performance, but as I explained, there are some short-term extraneous factors with it. In fact, we will do catch-up in Q3-Q4. Year-end, we are hopeful of meeting this. So, with these comments, let me now hand over to Vinay to take you through some of the numbers, ratios, etc and then we can open up to the question-and-answer session.

**Vinay Gupta, Group Head Treasury**

Thank you, sir. So this is the first time while the company has announced the consolidated financials on half yearly basis due to change in the regulation. So, those numbers have also been circulated. The one thing what we can mention here that in the in the H1, majority of the subsidiaries are positive on EBITDA level, and we expect the momentum to continue and to improve H1 in general is better than -- H2 is in general is better than H1. So, we expect that there will be an improvement in the consolidated financial of the company for the financial year 2020.

As Mr. Neeraj Kumar mentioned about the order book, the order book in terms of the volume of pipes and pallets actually has increased in this quarter. The value looks lower primarily because of the softness in the raw metal prices leading to the softness in the prices of ultimate product, but we believe that the profitability would remain the in the same range.

In terms of our debt from the banks on the standalone level, there is an improvement as compared to the June quarter. In the September quarter, the total debt was INR4,115 cr as compared to INR4,247 cr in June. Our endeavor is to reduce the overall debt as much as possible and to bring the efficiency in the working capital management, but we have also highlighted couple of issues, which could be the short-term issues regarding the collections and receivable. But we expect that they would be improved volumes in the current year and we have sufficient liquidity and working capital facilities available to take care of the increased business and volumes.

In terms of our rating, we have mentioned in note, the CARE ratings have reaffirmed AA rating to Jindal SAW, which was on October 1. So, we remain AA as of now also. So, with this, perhaps, we'll leave the floor open for the question-answer. Thank you.

## **Question and Answer Session**

### **Operator**

Sure, thank you very much. We will now begin with the question-and-answer session. (Instructions).

The first question is from the line of the Dhanajay Mishra from Sunidhi Securities. Please go ahead.

### **Dhanajay Mishra, Sunidhi Securities:**

Yeah. Hello, sir. So, just one question regarding this you said the we had a working capital issue, but if I look at inventory level in decibel level, it has come down so volume decreases we have seen only because of this you mentioned monsoon issue and all slow execution or we also had order inflow issue, means we have a lower order inflows that we could not, to maintained the growth.

### **Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

No, order in flows is not an issue we have a healthy order book and in the order book if you see the quantity that we have, we have clear but clear visibility for a few quarters. When we say there is -- there has been a little pile up of the inventory and receivables that is, if you compare your Q1 and Q2, so in between there has been a little pile up obviously from year-end basis it shows an improvement, because there has been a lot of emphasis on it.

### **Dhanajay Mishra, Sunidhi Securities:**

So, can we expect similar kind of volume what we did in last year? Can we achieve those volume in this year or there will be slight dip, because—

### **Vinay Gupta, Group Head Treasury**

No, so the dip you're only seeing for Q2 and that's what we mentioned earlier also the Q2 is because of various reasons normally Q2 in is lower -- softer. We expect the volume to be see the better for the FY '20.

### **Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

See, If you see organization like Jindal saw there has been a seasonality traditionally where Q4 would always be the best, Q1 would be the second best because there is a spillover effect of Q4. Q4 becomes the best because all the government budgets etc, March ending comes in so few for typically would always be the best Q1 because of the spillover effect will be the second best, Q3 becomes third because Q2 always is the softer one on account of monsoons and other things. So, that when always continue. So let's between it will happen this year. Also we are fully confident that the year end targets would be met.

### **Dhanajay Mishra, Sunidhi Securities:**

Okay, and sir this regarding this right back of this detail, so this is a difference of this 25%, 35% which we have written back in the normal INR 350 crore liability will be there. Is it my -- is it my understanding right?

**Narendra Mantri, Head of Commercial & Chief Financial Officer**

Yeah, your understanding is right.

**Dhanajay Mishra, Sunidhi Securities:**

Okay, and this INR 500 crore, we will receive definitely as you said that this will be -- once they pay only they can feel for the like in last two order we had received the amount. So we can expect this amount do we received in next two, three weeks?

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

We are hopeful because in a judicial process unless you receive it you really can't say it. But if you read the judgment it is very clear that this there is a timeline they have been instructed to deposit. There was a requirement from our side that we had to fulfill, we have fulfilled that. So we believe that NTPC will have little option. But to put this one option they might have is they might want to straight away go and appeal for against this order, this interim model, but they are also looking at the way -- if you recall even the honorable Finance Minister sometime when she was in one of our speeches for the boosting of the economy. She did mention about the meeting -- circular of 75% and all that. So, this is much less than that. So the advice that we are getting is that yes, it should come.

**Dhanajay Mishra, Sunidhi Securities:**

Okay, like the last two instances they are paid, so this time they should also pay right?

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

Yes. In fact, this time it would appear a little this should happen little simpler because last two instances, we had to receive the money straight from NTPC by giving a bank guarantee to the NTPC. This time NTPC has to deposit money in the court and we will get money released from the court based on the bank guarantee that we will give to the court. So this process we believe is simpler and better because then there is a little interaction or little back and forth that we will have with NTPC on the subject.

**Dhanajay Mishra, Sunidhi Securities:**

Okay, so once we receive amount, do you also appeal you for the remaining amount? Right?

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

Then the hearing will continue yeah. Because our enforcement is -- see there are two cases running in parallel; our enforcement where we have asked the courts to enforce the arbitration award that we have win -- won and NTPC has a field against the award so both cases are running concurrently so that will continue.

**Operator**

Thank you, the next question is from the line of Meet Jain from Prithvi Finmart, please go ahead.

**Meet Jain, Prithvi Finmart**

Yeah, hi, Sir. I want to know regarding the under Andhra Pradesh orders, means we started retendering that orders and what is status right now?

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

AP orders, are you referring to the orders which got cancelled?

**Meet Jain, Prithvi Finmart**

Yes.

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

We did not get majorly impacted by that order. So we do not have either a positive or a negative because in the first round itself, we did not have a very large share of those orders which got issued in the last six months of the previous government which got cancelled. So we are agnostic to that.

**Meet Jain, Prithvi Finmart**

Okay, and from the demand outlook side, like I mean in water -- water orders had not been like -- they're like now is going to slow down in the waters sector order book.

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

Not slowed down. See on the demand side in the water sector horizon, medium-term outlook appears very bright because I'm sure all of you this Jal Shakti Abhiyan. Which is water on tap in every house is absolutely music to all the pipe manufacturers because you cannot have a water tap in every house, unless you have all kinds of pipe. In Jindal SAW, since we have large diameter which is used for trunk lines, we have DI, which is used for distribution. And now we also have started manufacturing HDPE, which is used for the last mile connectivity to the home. So on the medium-term because of the initiative of the government, we appear very hopeful but has we started seeing the trickle of all this coming into orders, not yet.

**Meet Jain, Prithvi Finmart**

Okay. As I can see the Saw Pipe sales as sequentially quarter on quarter, year end also has an improved quite a bit, both H Saw and L saw pipes. So this was because of the water orders or oil and gas. Which was the major contributor to this growth?

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

Both. At this point of time, we also have a very healthy order book of the oil and gas. In fact, Q2 if you see the turnover a good percentage or a good portion of the top line has come from the oil and gas order as well.

**Meet Jain, Prithvi Finmart**

Okay. I'll get back to in the queue. Thank you.

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

Sure.

**Operator**

Thank you, before we take the next question other mind that to participants, please limit your questions to two per participant. The next question is from the line of Anish Tushnia from Wealth Creators. Please go ahead.

**Anish Tushnia, Wealth Creators**

And yeah, hi, sir recent numbers in this challenging space right now. Just wanted to understand, when you mean appeal against the order, I mean that's one course of action for NTPC. How does that turn out to be?

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

How does that turn out to be? Now again, when you say something like this, you are asking me to second guess two things; A, would NTPC appeal or not. That is for them, it is very difficult for us to second guess that. Second, the once they appeal what happens in the court, now if you look at the precedence, NTPC did tried going too high court twice and they did try going to supreme court twice to appeal against such interim orders, which are like money degree. And on all four occasions, twice in high court and twice in supreme court, they lost it first day. So the case was not even admitted. So looking at the precedence again, we appear to be on sound footing but as I said, second guessing initial processor their next move is not really appropriate. So the best thing is that we will have to wait and I'm sure when we are discussing this in the next quarter result, you would know exactly how things are panned out.

**Anish Tushnia, Wealth Creators**

Okay. Thank you.

**Operator**

Thank you very much. The next question is from the line of Vinod Chari from Dolat Capital. Please go ahead.

**Vinod Chari, Dolat Capital**

Yeah, thank you sir and good afternoon, sir. Just know you mentioned that water is going to be very big opportunity in the medium term which I assume probably is going to be over the next five years? So do you have any internal estimates in terms of how big this opportunity can be in terms of any? Is there any value number that one can attach?

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

See If you want to just understand the estimate of what this all market opportunity is likely to look like it's a huge, huge number and -- but since the order flow or since the contracting or whatever has not started to trickle, don't think it would be appropriate for us to start putting a number to it because it might be misleading because the the number is very large it is huge.

**Vinod Chari, Dolat Capital**

So, we'll understand that the number is large, but it's probably, difficult to -- probably for us to pinpoint in range. This is a size in opportunity -- size that can possibly come out of the water?

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

Exactly and second, we would also not be able to pinpoint in terms of this year this quarter half years second half. So, the ideal thing that we should do at this point of time is take a lot of hope that we do see a bright future on account of this Jal Shakti mission or initiative the government has taken. We should probably wait till we start seeing the things hitting the ground in terms of actualization, some tender flow some, this Jal shakti mission has to roll out. So we have to see interstate and all that, so we should ideally wait before putting numbers because at this point, of time I bet it would be guesstimate.

**Vinod Chari, Dolat Capital**

Okay and sir, just to understand this -- for the pipe industry, out of every INR100 there is likely to be spent on water. How much would actually flow to the pipe industry?

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

Typically, if you see any project cost, the pipe cost including fittings and all that would be 60% to 70%.

**Vinod Chari, Dolat Capital**

Okay. No, but project you mean entire an water project, maybe a city distribution or a municipal distribution?

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

Yes.

**Vinod Chari, Dolat Capital**

Ok, so 60%, 70% of the project cost is pipes and how much of would be -- how would this big -- between DI and say HDPE?

**Narendra Mantri, Head of Commercial & Chief Financial Officer**

See that again depends see as far as Jindal is concerned we are happy even if it is DI or large dia or HDP because we have all three.

**Vinod Chari, Dolat Capital**

Ok, I understand that. Just to get an industry perspective, I'm asking.

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

I'm explaining that.

**Vinod Chari, Dolat Capital**

Yes.

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

How much will it be between DI and large dia again, it would depend on the design. If there are trunk lines, it would be more larger dia. If it is within city limits in terms of distribution that it would be more DI.

**Vinod Chari, Dolat Capital**

Okay.

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

So, at this point of time, see unless the -- there is a -- see this Jal Shakti mission will have to be followed by a water grid rollout either or at national level or at a state level and in the state level then it has to go to the city level and all of those. So, once they start adding some more meat to their initiative where what kind of water grid they are talking, which are the water bodies they are thinking of linking, then all these estimates one would be able to project a little more accurately.

**Vinod Chari, Dolat Capital**

Okay, but so when you are talking of this water grid roll, I assume what the Prime Minister of -- talks about Har Ghar meh Jal or Nal se jal, he essentially means the grid rollout, right?

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

Yes.

**Vinod Chari, Dolat Capital**

Okay. So the government itself has set itself of I were together until 2024 that this should be connecting all the villages.

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

Right.

**Vinod Chari, Dolat Capital**

Okay, any real -- any sense that you get talking to the government officials in terms of the funding. How they likely to fund this entire spend?

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

It would be a mix of multilateral, they are going to get a lot of multilateral funding is a sense that we get, number one. Number two, they might also come up with some hybrid -- kind of a scenario and obviously, then the conventional source of using their budgets because this isn't -- keeps on talking about it so much and it's a government of India initiative as you have the Amrit and other schemes rolled out, there is going to be national budgetary support for sure, supported by multilateral funding because that also if you see now United Nations here, there, everywhere, there is a mention of this and they are all getting aligned so budgetary support, multilateral support and conventional funding, all three, I think would come into being because the numbers are really large.

**Vinod Chari, Dolat Capital**

Okay, thanks a lot of that is very useful. Thank you.

**Operator**

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

**Manish Bhandari, Vallum Capital**

Hi good afternoon. My question is regarding that since there is a clear guideline to receive the 75% of the money as per the government of India. So, why the court has only released INR 500 crores while our share as per the by the regulatory structure should be significantly higher?

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

Again Manish now, this is where you are asking us about your second guess the court because not only the court, if you actually go to NTPC's own website.

**Manish Bhandari, Vallum Capital**

Yes.

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

Talks of the 75%. In others, they talk about 75%. Here in the court, they have tried to argue. Our enforcement application is purely on account of this. Even the court they have been trying to say since the order is of a high order of magnitude, they need some relief and the high court in their system has given this entry model saying that okay, you have already received INR 350 crore, so take another, INR 500 crore, so that makes it about 50% instead of 75%. But we are but we are going to push for more for sure.

**Manish Bhandari, Vallum Capital**

Sure. My second question is regarding now since we are close to one quarter in the Sathavahana Ispat engagement. So, if you can throw some light that what kind of value Jindal Saw will get out of this reasonably good asset light strategy what you are following.

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

Sathwana would have at its capacity 2,00,000 tons of DI pipes. So DI pipe 2,00,000 tons, currently we have in our India facility close to 6,00,000. So essentially it is it would constitute 25% of the overall capacity that we would have but definitely there is going to be some lead time in terms of start of operations, in terms of demand we are comfortable that South India has enough demand which at this point of time point of time is being catered by the competition and we should be in a good position to then get into our market share of the demand, which is there currently in South India.

**Manish Bhandari, Vallum Capital**

So, does it mean that this turnover will get added to Jindal Saw and we would pay some kind of fee to the in part of the arrangement and will be a proportionate sales and EBITDA and that included in the Jindal or how this arrangement will work?

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

At the arrangement would have some of those features as you say. At currently, it is being examined by the Banks. The consortium of banks that they have and the consortium of banks that we have, so it will get examined that way but yes, it is a what we call OMMA operations, maintenance and management arrangement between Jindal Saw and Sathavahna. So it would definitely have a impact of, and it would show in Jindal SAW balance sheet, once we become operational we have to just get all this finalized by the consortium banks, that currently we are in discussion with them.

**Manish Bhandari, Vallum Capital**

My another question is regarding the progress on the JV what you have done on the Fittings side, DI fitting, so if you can throw some light and what kind of potential revenue and economics we can see?

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

In fittings also just to integrate them better with our DI business, we have got into an arrangement, which is similar to OMMA with fitting. So, that now operationally from a PPC standpoint from a production, planning, dispatch all of those it would work very closely with the DI system and those turnover would now come into Jindal Saw, the profitability would get retained into Jindal Saw and definitely there is going to be some fees which will have to be paid to Jindal fittings, which would be kind of there to take care of their costs in terms of overheads etc. So, it would have a positive impact both, it would improve the operational still efficiency of Jindal Saw along with fittings in terms of integrated supply of pipes and fittings and it would have a positive impact on the financial results as well.

**Operator**

Thank you. The next question is from the line of Sunil Jane from Nirmal Bang. Please go ahead.

**Sunil Jain, Nirmal Bang**

Hello. Yeah, congratulations sir on good set of numbers. Sir, my question relates to more of your Pellet Mill House, how is the performance is in this particular quarter about the Pellet Mill. Apart from volume, which you had said. How is the margin which is played in this quarter? And how what is the outlook?

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

The Pellet, if you see in terms of productivity, cost of production, we have very well settled. We are almost operating at full capacity. As far as the prices and the margins, as you know, it kind of rights and it is strongly co-related to the lump ore prices which are actually internationally benchmarked. So we did have a very good run in the recent past, there was some softening again, we are seeing some traction. So, overall this year the contribution from Pellet would be definitely higher than what we saw last year, and there was a small dip which now we are seeing some recovery.

**Sunil Jain, Nirmal Bang**

So, generally because of your location, you enjoy bit premium as compared to the other player. Was that premium stable?

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

No, let me just put that in right perspective. It's not a the enjoy some premium. We enjoy a protected market because we are the only one in Rajasthan which is the West and North, all others are in East. So, what we have is a freight advantage when you are able to supply to Rajasthan, Punjab, Haryana, Himachal Pradesh, Gujarat, part of Madhya Pradesh. So this market kind of becomes a favorable or a protected market for us on account of freight, plus in Gujarat from the port we have an advantage of being able to export because from Bhilwarathe return freight, whatever the trucks come in return freight we also get a freight

advantage. So essentially we have a protected kind of market on account of great advantage. And that continues. That would continue irrespective of what is the lump ore prices.

**Operator**

Thank you. (Operator Instructions). The next question is from the line of the Vikas Singh from Phillip Capital. Please go ahead.

**Vikas Singh, Phillip Capital**

Good afternoon, sir.

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

Good afternoon.

**Vikas Singh, Phillip Capital**

Sir, if I look at the subsidiaries performance this quarter, it has been a significant dip on a sequential basis. So if you, would you like to explain that which of the subsidiary has been performing a little bit poor in even on year on year perspective also?

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

The first thing that you need to be cognizant of that the number of subsidiaries are reducing very significantly. So, sometimes when you see a dip in the result is also because something which was a subsidiary no longer ceases to be a subsidiary either we have de-subsidized or we have shut down the operations or whatever, so that's one. At this point of time, these significant subsidiaries that we now are left with in Jindal Saw, I'm talking about post the closure or the truncated of Italy and others are Abu Dhabi, U.S. because now fittings and stainless are more or less integrated with Jindal Saw on account of the OMMA arrangements that we have.

We are left with two significant subsidiaries one Abu Dhabi, which is a DI facility, second, U.S. which is the coating facility. At this point of time the coating facility performance also has shown a dip primarily because of the trade barriers imposed by the American government. So, the bare pipe which used to get imported into US has reduced and therefore that coating business also has shown a little bit of a dip.

The DI business in Abu Dhabi is on a growth path, it is on an improving curve. So the consolidated results you should look at it this way. The two significant contributors are U.S. which is on a decline, a little bit, but we are profitable there is no danger or there is no issue of the profitability getting completely eroded. The DI business in Abu Dhabi is improving.

**Vikas Singh, Phillip Capital**

Sir, if I may ask so, how was the DI of Abu Dhabi volumes this quarter than how do we see going forward? What kind of the order book we have there and our expectation for the annualized run rate?

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

Annualized, we are hoping that this year we would be able to do 1,40,000 tons is what we expect that we should be able to do during this year.

**Operator,**

Thank you, the next question is from the line of Falguni Mehta from JetAge Securities. Please go ahead.

**Falguni Mehta, JetAge Securities**

Hello

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

Hi, Falguni,

**Falguni Mehta, JetAge Securities**

Hi, Sir, so good afternoon. I have a question on DI so, as you mentioned in South India other than Kalahasti who would be the other suppliers of DI.

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

Nobody. The other -- the next one is likely to be the Jindal Sathavahna team combined.

**Falguni Mehta, JetAge Securities**

Okay, and sir, as regards the AP order cancellations, would this DI -- I am sure DI also would have got impacted. So, would it be possible to kind of give an idea as to how much impact SriKalahasti would be having since they are the only one operating there?

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

No, Kalahasti has not been in operation for the last 12 months. So the order cancellation -- okay, are you talking about Kalahasti, or are you talking about some other.

**Falguni Mehta, JetAge Securities**

Yes Kalahasti.

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

I don't think it is appropriate for me to answer that. Kalahasti, I think--

**Falguni Mehta, JetAge Securities**

Or broadly you can just tell me be has DI also got impacted in this AP cancellations.

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

Yes, all contracts have been cancelled. So, I was talking about -- okay, so let me clarify and complete what I was saying. Sathavahna since it has not been an operation for years, Sathavahna also did not get negatively impacted, we did not get negatively impacted. So for Jindal and for Sathavahna, once all of those contracts that have been cancelled comes for re-tender because I am sure they would do, there are requirements. It would be an opportunity for us. But how did the competition get impacted, I would suggest and request maybe you should check with them.

**Falguni Mehta, JetAge Securities**

Fine, sir. Thank you. That's all from my side.

**Operator**

Thank you. The next question is from the line of the Ritika Garg from Aequitas Investment Advisors.

**Ritika Garg, Aequitas Investment Advisors**

Good afternoon, Sir. So could you tell me what is the outlook for the stainless steel pipe business?

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

These stainless steel pipes business outlook for us is very encouraging because as I have already said, we have now strategic exclusive, tie-up with hunting which allows us to enter the premium segment, address some of the segments for big clients like ONGC which is the upstream downstream oil and gas sector which till date was being addressed by the imports. So it would be kind of an import substitute and it would also help us enter a premium segment, value added segment. So, we are encouraged about our Hunting, we are encouraged about our stainless business and we are also encouraged about the alloy steel business which are the 13 chrome etc . So these value-added segments all put together gives us a lot of hope.

**Ritika Garg, Aequitas Investment Advisors**

So what kind of revenues do we expect from this business in FY'21?

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

FY'21, so you are talking about the next year?

**Ritika Garg, Aequitas Investment Advisors**

Yeah. I mean if you can tell me for this year and next year.

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

Next year, we would expect that our Nagothana, Nasik as well as now we are doing large diameter stainless steel pipe from our -- facility all put together for the next full year in a new format we should be in excess of 3,00,000 tons.

**Ritika Garg, Aequitas Investment Advisors**

Okay, and what is the outlook for the seamless auto types -- I mean this all little dip in the seamless division this quarter because of auto and power?

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

Yes.

**Ritika Garg, Aequitas Investment Advisors**

So, how do we see that going to more?

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

More so in auto and, it has not come back to normal, but at least it is not declining any further.

**Ritika Garg, Aequitas Investment Advisors**

Okay.

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

But we are adjusting our marketing strategy where we are moving to new segment. See, with this Stainless or Iron & Steel and MS, seamless pipes and cubes welded with now capacity to go up to 16 inch with now our own extruder coming into play and adding a few, very sophisticated pilger etc . This is becoming a very strong combination for us.

**Ritika Garg, Aequitas Investment Advisors**

Okay, and we mentioned that our order books from oil and gas was increasing right, in quarter two?.

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

In large diameter we have a good order book and good supply we made in quarter two in oil and gas sector as well. Yes, we do have a few good contracts in oil and gas sector.

**Ritika Garg, Aequitas Investment Advisors**

No, so from a total order book of \$1 billion. Can you tell me how much of it would be from oil and gas?

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

Maybe about 25% to 30%.

**Ritika Garg, Aequitas Investment Advisors**

Okay. And the balance would be water?

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

The balance would be water divided into HSAW and DI.

**Ritika Garg, Aequitas Investment Advisors**

Okay, all right.

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

Some stainless obviously would be there. Yes.

**Ritika Garg, Aequitas Investment Advisors**

Okay. And do we have and we have a we've got a tie up with Engineers India, Right. For the stainless steel pipes, we were approved by Engineers India Limited?

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

We don't have a tie up for Engineers India Limited is a certifying agency we have got that with us which helps us now enter a lot of market segments where we would be able to supply now.

**Operator**

Thank you. The next question is from the line of Riddhesh Gandhi from Discovery Capitals. Please go ahead.

**Riddhesh Gandhi, Discovery Capital**

Hi,

**Operator**

I'm sorry to interrupt, that we can't hear you clearly, request you use the handset.

**Riddhesh Gandhi, Discovery Capital**

Yeah, sure. One second.

**Operator**

Riddhesh? We seem to have lost the lines from Riddhesh. We will move to the next question the next question. The next question is from the line of Nathmal Modi he is an Individual Investor. Please go ahead.

**Nathmal Modi, Individual Investor**

Yes, sir. Good afternoon. My question is regarding deferred tax liability. As you say that we have return back deferred tax liability, but from the balance sheet, which is attached to the account. I could see that INR 545 crore was the balance of 31st of March. And as on 30th September 2019, it is INR 346 crore. So how come but it's still INR 346 it is shows the balance?

**Narendra Mantri- Head Commercial**

We have not write back the entire liability, we have write back the differential liability earlier we used to make a deferred tax liability at approximately 35% which has reduced to now 25% of the amount. So approximately 10% reduction in that liability and that we have--.

**Nathmal Modi, Individual Investor**

So this will continue in the books?

**Vinay Gupta, Group Head Treasury**

This 25% will continue.

**Nathmal Modi, Individual Investor**

Other things are this prices of coking coal has fallen down like anything. So are you getting any benefit out of that?

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

We would and probably, we should see that impact in Q3, Q4. Because there is always some lead lag because whenever even if the prices fall to the extent that you have an inventory already which you with you that values they also the raw material prices differential they'll give us a benefit and in this case probably will see it in Q3.

**Nathmal Modi, Individual Investor**

We are using coking coals in large quantity?

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**  
Sorry?

**Nathmal Modi, Individual Investor**

We are using coking coal in large quantity, coking coal we are using?

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

Coking coal is one of the major components -- major raw materials for are DI.

**Nathmal Modi, Individual Investor**

And it's being imported?

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

Look coking coal, we are getting coal. We have our own coke oven batteries. So we convert imported coal. Yes. The coal is imported. We convert them into coke in our own coke oven batteries, and then we consume it along with the iron ore in our blast ass processes.

**Nakhmal Modi, Individual Investor**

Okay, sir. Nice. Thank you.

**Operator**

The next question is from the line of Govind Sahu from IndiaNivesh.

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

May I request that we now limit to may be last two questions because I have a little time constraint. I have to get on to another something important assignment. So, if I may request, we can do maybe last two questions is it okay?

**Operator**

Sure. Absolutely.

**Govind Sahu, IndiaNivesh**

Hi. Sir I have 2, 3 questions, first is regarding this NTPC order. So, just wanted to understand the cash flow impact because, I understand that for the BG you have to pay some 100% FDR with the bank. So net cash flow impact is nullified by the FD which needs to be placed with the bank. So what net cash flow impact should we expect even if the NTPC has to pay INR 500 crores?

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

Okay. First, assuming the worst case scenario that you have to put a 100% cash margin against the bank guarantee. It will definitely have an impact because you can still -- there is going to be some saving in terms of the interest rate differential. You are converting your funded to non-funded, so there is going to be a interest rate differential that also becomes important. Second, being existing bankers from whom we have these limits, having seen that how the INR 350 crores that we have received is there, not all my limits would be against 100% margin. So there is a likelihood of we getting some liquidity once we receive this INR 500 crores.

**Operator**

Thank you. We'll be able to take one last question. The last question is from the line of Rajendra Mishra from IDFC Mutual Fund. Please go ahead.

**Rajendra Mishra, IDFC Mutual Fund**

Hi. So can you give us some guidance we are looking at the debt numbers, going forward?

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

The debt numbers as Vinay has told you that term number is continuing to decrease and will continue to decrease and it will run its all normal life in terms of currently our term debt, which when we started was close to INR 2,000 crores is now close to INR 1,600 crores, INR 1,700 crores. By year-end there would be a few more repayments. So it will go in the vicinity of INR 1,500 crore. If you look at term debt to EBITDA it would give you a real picture of our ability to serve term date. They would be working capital as I said should never be considered in our opinion when you are looking at debt to EBITDA et cetera because working capital is very well engrained in our operation.

And traditionally, otherwise also you would see we do not have any write-offs. We do not have any write-offs either on account of that debt or an account of empty end to the inventory. So, debt position at this point of time the stand alone as well as on a consolidated basis, we are very comfortable both on account of the quantum of debt, which is outstanding as well as the maturity profile that we have over the next two years or so. The term debt repayment would be in the vicinity of INR 300 crores to INR 400 crores only.

**Rajendra Mishra, IDFC Mutual Fund**

Okay, and what's the working capital now in terms of days?

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

Working capital at present we are in the vicinity of INR 2,000 crores and a few hundred crores. So with a projected turnover if I take INR 10,000 crores, INR 2,000 crores, so that's about 20% of your turnover —

**Rajendra Mishra, IDFC Mutual Fund**

20% of sales.

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

So it's about 60% 50% -- 60 to 65 days DSO is your total working capital utilization.

**Rajendra Mishra, IDFC Mutual Fund**

And since you set it has gone up so when do we expect this to normalize going forward or this will remain there for a few quarters?

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

Our hope and expectation is that it should ease out now.

**Rajendra Mishra, IDFC Mutual Fund**

Okay, and last thing on the order book, I'm not sure if I got the full order book, right, if you can just broadly give the order book mix?

**Vinay Gupta, Group Head Treasury**

Okay, so that is in the notes but in the eventually we have orders of SAW pipes of approximately \$560 million, the DI pipes \$380 million, seamless \$43 billion dollars and Pellets is \$21 million. So that's all put together to \$1 billion, but in terms of the quantity we are close to 1.3 million tons.

**Operator**

Thank you very much. We'll take kind of last question. I would now like to hand the conference back to the management team for closing comments.

**Neeraj Kumar, Group Chief Executive Officer & Whole Time Director**

I would like to thank all the investors, friends who have been with us and would assure them that as an organization we continue to focus on performance. We continue to focus on good governance and that is the beginning to show results where the fundamentals of the company have improved significantly and we assure you that we will do everything that is required to maintain that good governance and good performance. Thank you very much.

**Operator**

Thank you very much. On behalf of the Prabhudas Lilladher Pvt. Ltd., that concludes this conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.