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Prashanth Kota, Dolat Capital
Ritesh Shah, Investec Bank plc
Satyadeep Jain, Ambit Capital
Vishal Chandak, Motilal Oswal Securities Limited

PRESENTATION

Operator:

Ladies and gentlemen, good day, and welcome to the Tata Steel Analyst Call. Please note that this meeting is being recorded. All the attendees, audio and video has been disabled from the back end and will be enabled subsequently. I would now like to hand the conference over to Ms. Samita Shah. Thank you, and over to you, ma'am.

Samita Shah: ***VP CFTRM – Tata Steel Limited***

Yes. So good morning, good afternoon, and good evening to all of you joining us from the West from India as well as the Far East. I'm Samita, and I'm delighted on behalf of Tata Steel to welcome you to this call to discuss our results for the first quarter of FY23.We have with us our CEO and Managing Director, Mr. T.V. Narendran, who's on the screen beside me. Unfortunately, our ED and CFO, Mr. Koushik Chatterjee, is down with COVID and will not be able to join this call today. But we will attempt over this 1 hour or so to walk you through our results and explain our performance and obviously answer any questions you may have.

We will take questions in audio mode as well as in chat mode. Before I hand it over to Naren, I just want to remind you that our presentation explaining our performance is on our website. You can refer to it for your convenience. There is a safe harbour clause on Page 2 of the presentation, which will cover the entire discussion. Thank you, and over to you, Naren.

T. V. Narendran: ***CEO & MD - Tata Steel Limited***

Thanks, Samita. Good morning, good afternoon, and good evening to all of you. As you know, the global economy is facing several macroeconomic headwinds from inflation and interest rate hikes, to the COVID situation in China and the conflict between Russia and Ukraine. Commodity and steel prices have naturally been affected and there's been a sharp correction in prices of both steel and input prices. Indian steel industry also faced similar challenges, which were compounded by the imposition of the 15% export duty midway through the quarter. And all of this has weighed on steel spot spreads and they have dropped sharply.

Despite these multiple headwinds, Tata Steel has delivered a strong performance with improvement in margins, which validates our strategy and business model, and I'll explain some of the reasons to you.

One is our India business, which has always been focused on the domestic market with exports typically accounting for about 10% to 15% of our total volume. We've been able to pivot quite successfully into the domestic market, where we've built strong relationships. And what I would also like to highlight is even if you look at the last few years, we've been selling more in the domestic market than anybody else in India, and that has put us in a good position to scale up in India and despite the challenges. So while the export duty did have an impact, we were able to increase our domestic deliveries by about 5% on YoY basis and achieve an increase of about Rs. 5,000/t which is slightly lower than what we predicted. But of course, a lot has changed since our guidance after the last year's results.

In Europe, too, we have delivered a strong performance enabled by long-term contracts and product mix. So on QoQ basis, we continued to improve our performance and EBITDA was upwards of £600 million, with net realizations higher by about £154 per ton (inaudible).

Looking ahead, the rest of the year will continue to be challenging. Our performance in the second quarter will be impacted by lower net realizations, which will not be fully compensated by the drop in input prices because most of the benefits of the lower coal prices today will flow through towards the end of next quarter and mostly will be felt in the third quarter. We are working on mitigating this mismatch, but the heightened volatility makes it difficult to assess the exact impact. However, we do see a few green shoots, which should improve performance in the second half of the year.

For one, the COVID restrictions in China have begun to ease, and we expect that some of the pent-up demand will come back. We're already seeing that in the auto sector in China and the government stimulus, including what they've announced a couple of days back to help the property markets are expected to drive more stability in the Chinese market. The second point I want to make is, at today's prices, most Chinese steel companies are losing money. This is in part because the coking coal prices in China are quite high and not comparable to the Australian coking coal prices, as China doesn't buy coking coal from Australia. And hence, there's tremendous pressure on Chinese steel companies either to cut production or to increase prices.

In India, steel prices have now stabilized and are at lower levels, and the pent-up demand or the demand which was postponed because steel prices were dropping is slowly coming back. Sectors like automotive continue to do well, and the underlying demand from end users remains strong. And as demand further picks up post the monsoon period and with early onset of the festive season, we expect inventory restocking to resume, helping prices move up. And hence, while we do expect margin compression in the second quarter, we see volume expansion also to happen in the second quarter. We will start seeing the liquidity improve with inventory translating into sales.

We continue to drive value-accretive growth in India and remain well positioned to benefit from the expected shift in demand dynamics towards the latter half of the year, and at our 6 MTPA pellet plant in Kalinganagar, power has already been charged, the equipment is being tested, and it will be commissioned in the next 3 months or so, and that will help us drive further cost savings. At the Cold Rolling Mill also the power has been charged and the equipment has been tested and what we call [inaudible] itself will get started in the next few months. And by the end of the year, we would have commissioned the coal rolling part of it and then we'll commission the galvanizing lines and the annealing lines.

Acquistion of Neelanchal Ispat Nigam Limited was completed on 4th of July. The plant, which has been shut down for more than 2 years, we expect to start the blast furnace at least in the next 3 months. We continue to progress on our sustainability journey and are committed to be net zero by 2045. Multiple initiatives are underway across multiple geographies, aligned with respect to regulatory and operating environment. We are steadily increasing the use of scrap in our steelmaking process in India to bring down the carbon footprint. We've also started using solar energy for some of our mining activity. We are deploying EV trucks for short distance, repetitive kind of movement of material. In Kalinganagar Phase 2, as we expand, we will again reduce the carbon footprint of the Kalinganagar operation because the utilities etc., and all other areas will have a larger denominator to deal with in terms of larger production.

Tata Steel Europe is working on a transition to green steel, both at Netherlands and the U.K. Before I hand over to Samita to take us through the financials. I would also like to comment a bit on talent, which is sometimes an underappreciated part of Tata Steel. We are very proud of the talent that we have and some of the quality of talent is reflected in the results that we have delivered. Tata Steel has always invested in nurturing talent. In fact, in many ways, we've also been sort of ben a feeder for manufacturing industry including the metals and mining sector in India with many of our alumni occupying

leadership positions in many companies. In recent times, we've also tried to broad base our talent. We have made several concentrated efforts to structurally make Tata Steel more agile, diverse, and inclusive and a more engaging workplace for the talent of the future. We have adopted agile way of working to fast pace some of our long-term projects and brought in a lot of flexibility via work from home policies which continue even beyond COVID. We were the first mine in India to deploy women in all shifts. Till recently, legislation in India did not allow that. And we have also deployed women employees across the value chain. We've on-boarded more than 100 people from the transgender community, and we are working on integrating them into Tata Steel and society at large.

With that, I hand over to Samita for her comments before we deal with the questions. Thank you.

Samita Shah: ***VP CFTRM – Tata Steel Limited***

Thank you, Naren. Tata Steel has continued to perform across geographies despite the complex global operating environment. Our consolidated revenues for the quarter stood at Rs. 63,430 crores and were up 19% on YoY basis with higher per ton realizations in both India and Europe. Our consolidated EBITDA stood at Rs. 15,047 crores, translating to an EBITDA margin of 24%. Our adjusted EBITDA, which excludes the FX impact, stood at Rs. 14,348 crores and increased by Rs 1,829 to Rs 21,661 per ton on a QoQ basis. This was despite the increase in raw material costs, both in Europe and India.

Moving to Tata Steel standalone. Our raw material costs for the quarter increased to Rs. 17,336 crores, primarily due to an increase in coking coal consumption cost by $112 per ton of coal. Royalty increased by Rs 205 crores, as there is a lag in the IBM declared prices on which royalty is computed. The decline in spot prices of iron ore since May is yet to reflect in those prices. Forex gains for the quarter stood at Rs. 1,312 crores. This is for Tata Steel standalone again. And excluding this, the adjusted EBITDA stood at Rs 8,304 crores, which translates to EBITDA per ton of Rs 21,326.

At Tata Steel Europe, raw material costs for the quarter increased to £1,148 million due to an increase in coking coal consumption cost by around £84 per ton. Energy expenses declined due to a moderation in gas prices, and we also received government rebate in UK for payments made for power expenses in the previous months. This was partly offset by slightly higher costs related to freight and handling. Overall, total costs were up by £43 per ton, while steel realisation was higher by £154 per ton, leading to a significant uptick of £111 in EBITDA per ton, which translated to best ever quarterly performance of £621 million.

At the Consolidated level, Taxes for the quarter stood at Rs 4,192 crores and were up on a QoQ basis, mainly due to deferred tax component in Europe. Excluding the noncash deferred tax component, taxes are in line with profitability.

Moving on, the volatility in commodity prices and the immediate impact of export duty has led to an increase in working capital on QoQ basis, primarily due to an increase in both raw material and finished and semi-finished goods inventory. As the fourth quarter is a seasonally strong one, there is a drawdown of stocks and the subsequent quarter usually witnesses some build-up. In the first quarter, this trend coincided with the imposition of the export duty and higher coking coal consumption cost, which has led to an increase in overall inventory position over the normalized levels. Of late, coking coal prices have moderated to below $250 per ton levels, and this should begin to fully reflect in the P&L and our working capital from the later part of the second quarter in India and more like the third quarter in Europe.

This, coupled with our cost improvement and other initiatives, should result in a normalization of working capital in the second half of FY23. Despite the increase in working capital, we were able to keep our net debt at Rs 54,504 crores, and our financial metrics continue to be well within investment-grade levels. Our Net debt to EBITDA is 0.87x, while our Net debt to equity is below 0.5. We remain committed to our annual deleveraging target of $1 billion per year in line with our capital allocation policy of prioritizing reduction in debt.

Capital expenditure for the quarter stood at Rs 2,725 crores, and we maintain our annual guidance of Rs 12,000 crores for the year. Our group liquidity remains strong. We ended the quarter with a cash balance of over Rs 28,000 crores. Part of this cash built-up was to fund the acquisition of NINL, which we have completed in early July, and we are now back to our normalized cash levels. With this, we will end here and open the call for questions. Over to you, Kinshuk.

QUESTIONS AND ANSWERS

Operator

We will now begin with the Q&A session. We will be taking questions on audio and chat.

We have our first question from Satyadeep Jain of Ambit Capital.

Satyadeep Jain, *Ambit Capital*

My first question is on energy. What kind of rebate did you get in UK this quarter? And what kind of -- you also have the hedge position for energy. How do we look at energy cost inflation for you in both Netherlands and UK over the next few quarters?

T. V. Narendran: *CEO & MD - Tata Steel Limited*

Yes, energy inflation is a concern. If I look at what we're going to spend this year compared to what we were spending maybe 2 years back, it's about 3x, simply because of gas prices going up.

We've been insulated quite a bit from the volatility because we typically hedge 75% of our exposure, and that's why we've not had the -- we are a bit insulated from the volatility that you see. Going forward, we do expect things to settle a bit because, as you know, Europe is taking several actions to reduce its dependence on Russian gas, including starting up some of the coal power plants and investing significantly in LNG. And more specifically, if I look at Netherlands, they have already fulfilled the requirement of EU for countries to consume 15% less gas than they normally do. And so, there is no business risk to us from lower gas availability.

But the inflationary pressures are something which we keep watching. That also is reflected in the higher spreads than you normally see because everyone is facing the same challenge. So, costs in Europe are certainly higher than what we've seen in the past.

Satyadeep Jain, *Ambit Capital*

One follow-up on that, you are basically saying that the entire energy exposure is hedged 75% for the rest of the year. Are you somewhat hedged for next year also?

T. V. Narendran: *CEO & MD - Tata Steel Limited*

No. I mean, typically, it's for the next couple of quarters that we are fully hedged. So, we continue to work that hedge, and that's about 75%. No, we're not hedged for the next year.

Satyadeep Jain, *Ambit Capital*

Tata Steel has also been embarking on transformation program. I'm talking about the European business. Given that the UK entity has grant from the government on energy consumption, where does Tata Steel Europe stand on the European cost curve now where versus where it was a few years ago? And structurally, the challenge with Tata Steel Europe historically was a significant downturn. There was an EBITDA loss at the P&L level. Structurally, what has changed for the European steel industry that could provide us some confidence that there has been a margin uplift compared to historical levels?

And related to this would be, given the gas prices where they are, could there be delay in the entire push to DRI? I believe that the transition to hydrogen-based DRI for many of the companies is not a straightforward transition to hydrogen-based. So, it's partly starting with the natural gas and then moving to hydrogen. But given gas prices, could we be looking at a late transition to DRI?

T. V. Narendran: ***CEO & MD - Tata Steel Limited***

In terms of the cost position of the European business, I would separate out Netherlands and UK. Netherlands has always been well positioned as far as the European steel producers are concerned. It's always been on the left end of the cost curve, which means it's been one of the lowest cost producers in Europe and continues to occupy the position. But having said that, we continue to take out costs and drive more efficiency. That is one part because we are also conscious that there's inflationary pressures, not just on gas prices, but also on labour costs. So that's something that we will continue to work on.

Second thing which we are doing in Europe is apart from cost, we continuously invest to improve our product mix. So in Netherlands, the STAR program, which we've been running for the last few years, is about enriching the product mix, serving the more high-end customers etc. We probably have one of the best steelmaking shops in Europe now with the investments that we've made. So, there's a product enrichment also going on to supplement our competitive cost position.

As far as UK is concerned, it is somewhere in the middle of the cost curve for the European steel industry because there are some structural issues. The UK plant is not balanced like the Netherlands plant. It doesn't have a pellet plant. It needs to buy. The gas balance is not perfect. So, there are some challenges because of which the UK business will be about €20 to €30 per ton or €40 per ton in a worse position than Netherlands on a comparable basis. One of the issues there is also is the electricity cost in UK. So, these are issues we are talking to the government. As far as the transition is concerned, yes, in Netherlands, the plan is to move from blast furnace coal base to gas based DRI to hydrogen. What you're saying is something which has been in discussion across Europe and in Netherlands. But the general view is that in the next year Europe will have options beyond Russia as far as gas supply is concerned. So gas availability is not expected to be a concern. Gas prices are also expected to settle over the next 2 - 3 years by the time we shift to gas-based production. So, it's something which we watch very carefully. But as of now, it has not impacted our transition plans.

Satyadeep Jain, ***Ambit Capital***

One of the questions was also on the structure

T. V. Narendran: ***CEO & MD - Tata Steel Limited***

Yes. So, the cost takeouts continue. Typically, we target about €100 to €150 million of cost takeouts, both in Netherlands and in UK based on the cost programs that we run every year, like in India as well. So that continues. And to some extent that is helping us offset some of the inflationary pressures.

Operator:

The next question is from Amit Dixit of Edelweiss.

Amit Dixit, ***Edelweiss:***

Given the significant thrust on sustainability in Europe, and what has been highlighted a number of times in our annual report as well is that we are looking for to meet the elevated sustainability standards of Europe and would be investing over time. Now in the past, we have been told that most of this Capex would be funded out of the cash flows that Netherlands operations generate. And in UK, possibly you will be dependent on government support.

What are we targeting to spend over the next few years in Europe on sustainability? And how much of it would be funded from the cash flow generated from the business? And how much of it is likely to be funded from Tata Steel standalone business?

T. V. Narendran: ***CEO & MD - Tata Steel Limited***

Firstly, strategy and approach are different for Netherlands and U.K. So, when you look at Netherlands, like I said, transition plan is when the blast furnace comes up for relining, here I am not referring to the one which is due for relining in

February next year, but the next one which comes to relining after that. When that blast furnace comes up for relining, we will close it down and start building the gas based DRI facilities. That's the plan, but we are working out the details of the business case. The expectation is that we should build a corpus from the Tata Steel Netherlands cash flows to try and ensure that the transition is done by the cash flows generated from Netherlands and with some support from the government in Netherlands. So that's the plan and it is not dependent on support from India. That's as far as Netherlands is concerned.

As far as U.K. is concerned, the cash flows in UK will never be able to support the capex that is required for the transition. In UK, the transition is different because it is more towards leveraging scrap which is available. UK is an exporter of scrap. So, there is an opportunity to leverage the scrap, which is available in UK and converted in a steel as long as there is support from the government to help with the capex required for transition as well as some policy support because energy costs in UK are 2x the energy costs in Europe. So, the UK transition is very much dependent on the kind of support we can get from the government because, again, the philosophy is we want to minimize the impact on the Standalone or Parent.

Amit Dixit, *Edelweiss*

Okay. And the second question is essentially we have split Tata Steel Netherlands and Tata Steel UK business in October. Is there a thought process, wherein we can get separate financial statements for these entities, I mean, going forward in quarterly? Is there a possibility of the same?

Samita Shah: *VP CFTRM – Tata Steel Limited*

I can answer that, yes. So, I understand where you're coming from, that you're looking for more clarity between the two entities. I think for us, it's trying to strike a balance between the amount of sort of complexity of the data we put forth in the public domain and with the need for making sure you understand the performance. So we are already doing US dollars, we're doing pounds, and we are doing Rupees. So, it's a little bit of that. We do track the businesses separately, and we do comment a lot on the businesses for your understanding separately. We will evaluate this.

But frankly, from our perspective, it's more in terms of just trying to reduce the noise in the system. It's really about that. But we hear what you're saying, and we will come back and see if that is possible.

Operator:

The next question is from Vishal Chandak of Motilal Oswal.

Vishal Chandak, *Motilal Oswal Securities Limited*

My first question was with regard to your steel contracts that are getting repriced in Europe. Can you please help us understand how much proportion of contracts are getting reset? And typically, at what prices?

T. V. Narendran: *CEO & MD - Tata Steel Limited*

So, Vishal, about 30% of our contracts in Europe are annual contracts. There's no reset there. That continues till December. Of the balance, some of it has already been reset, which are quarterly and monthly etc., and then there's 30% which are half yearly, which are the ones which will get reset during this quarter. So that's a conversation which is ongoing.

Obviously, we expect to finish somewhere between the spot prices and the long term contract prices because when we reset these contracts, we are going to hold these prices for the next six months. So obviously, the price that we settle on will factor the way we see the next six months and the way our customers see the next six months.

Vishal Chandak, *Motilal Oswal Securities Limited*

That is useful. Sir, just following up on this contract repricing. We have seen Tata Steel Europe reporting phenomenal numbers. No one ever expected Tata Steel Europe to really beat India standalone or parent entity numbers. That's

something which I think we never expected. But the question remains, what is the sustainable number? We have seen Tata Steel Europe reporting as low as in triple digit negative EBITDA numbers also in terms of less than $100 per ton of EBITDA, and we have seen $370/t also. So how do we strike a balance and what is the sustainable number?

T. V. Narendran: ***CEO & MD - Tata Steel Limited***

I think the Netherlands business has always been EBITDA positive, has always been cash positive. It may not be so visible because we've always reported it as TSE. So, the Netherlands business has always been a strong business, slipped in between a bit here and there. But I think fundamentally, it's a strong business.

The UK business was the one which was fragile. And in the past, the UK business was 3x the size of today. It was 10 million tons. Today, it is 3 million tons. So today, the UK business, which is the most fragile part of our business is only 10% of Tata Steel's operations, whereas at one point in time, it was 40%. So that's a big structural change. So that is one point.

Second point is, traditionally, the steel spot spreads you would look at would be about €225 per ton. That used to be the spread -- average spread and that has changed. That has changed because costs in Europe have changed for everyone, not just for Tata Steel, whether it's gas prices, inflationary pressures etc.

So today, the spreads are -- if you see the spreads, are up over €600 per ton. Today, it's maybe in the €500 to €600/t range. We don't see it coming down to the €225/t that we've seen in the past. So, it will be somewhere in between. So, we do expect spreads in Europe to be higher than what we've seen traditionally because everyone's costs have gone up. In addition, everyone is investing or at least planning to invest in the transition to green. And on top of that, Europe is going to have a carbon border adjustment mechanism.

Exports from Russia, which were a big threat, are no longer such a big issue. There are quotas for imports coming in from all other countries. So, I think we do see spreads and prices in Europe to be higher than what we've traditionally seen, which will help all the businesses, including us. So, our job is to continue to be one of the most efficient in Europe, so that Tata Steel Netherlands at least can deliver industry-leading numbers.

UK is a slightly different problem. Again, in the UK, we are seeing that the government, as part of its efforts is trying to revive the British economy and is taking a number of steps to ensure that manufacturing activity in the UK continues to be strong post Brexit. As you saw, there were some actions taken more recently on restricting imports. But as we said before, we do need some support from the government to sustain this business over the long term. So I do expect, going forward, certainly better performance than we've seen in the past. It may not be what you saw in the last quarter, but certainly better than what you've seen in the past.

Vishal Chandak, ***Motilal Oswal Securities Limited***

Sir, my second question was with respect to, again, transitioning to the green. Now it's already in the public domain, and you've mentioned that the cost of transitioning in UK is about £3 billion, and it will not be possible for Tata Steel UK to do it all on its own. That's a known fact. But in terms of Netherlands, how are we looking at it? And if UK government doesn't support or the Netherlands government does not support, are we looking at closing these furnaces for good? Are we still looking at some buyers and consider selling out in good times for Tata Steel Europe at least?

T. V. Narendran: ***CEO & MD - Tata Steel Limited***

The £3 billion number was put out by media. So, I don't think we have commented on that. So, it's less than that. Let me put it that way. Yes, the transition cannot happen in the U.K. without policy support and some capital support from the government. Our pitch is that we have supported the business enough over the last 10 - 15 years, and we are an important part of the British manufacturing value chain. So, while we've done a bit, we have submitted to the government that we need some support there. So that's that part of it.

In terms of Netherlands, it's different. The detailed engineering work is being done. Once we do that, we'll have a better sense of the capex. In the meanwhile, the team there is focused on generating the cash flows and the surplus and creating a corpus to help us in the transition. The government is engaged with us and is willing to support us. What is the kind of support, that is still being worked out? It will also depend on what our ask is. But I think the business there is in a far better position to manage its transition by itself and with some support in policy, if not in cash. And we think we can build a long-term, sustainable business there. So that is what is being detailed out.

So, because everyone else in the Europe is going through the transition and is getting support from the government, as you can see in Spain, in Germany, etc. We expect that in Netherlands also we will get similar support.

Operator:

The next question is from Anuj Singla of Bank of America.

Anuj Singla, *BofA Securities:*

So firstly, on the energy security in Europe. Gas, like you mentioned, we are 75% hedged. But I'm more concerned about the availability of gas in the second half of the year. And there are some reports which our house has published where we see shutdowns in the European industrial activity, slowing down and curtailment of power to industries in Europe etc. Just like to get your thoughts on how we are positioned on energy security in the second half. And do we have visibility that we will be able to operate Tata Steel UK and Netherlands at optimal utilization levels?

T. V. Narendran: *CEO & MD - Tata Steel Limited*

Sure. So, Anuj, in UK, the issue is not so much. UK is better prepared than Europe as far as LNG terminals and everything else is concerned. So, I think UK doesn't have that much of an issue as the continent has.

In the continent, basically, EU has advised all the countries to cut down the requirement by about 15% for the second half of the year. Netherlands has already cut down to 20%. Tata Steel Netherlands has also done its planning. There's no disruption or impact on operations because we have options internally to better use our gases that we generate internally.

So, we are not exposed to this. We are not at risk. The business is not at risk. Gas prices, of course, is an issue. Like I said, 75% is hedged, but the rest of it has an impact, which is already being factored in. So we don't expect any business risk because of the situation. And I think Netherlands is already at 60% of the storage that it wants to have, and it's rapidly building up its storage of gas to prepare for the winter.

Just to expand this answer, of course, we are watching to see whether it impacts any of our customers and would that have an impact. That's something we are watching because our customers are spread all over Europe.

Anuj Singla, *BofA Securities:*

The second question is with regards to the Indian steel pricing outlook. Obviously, a lot of volatility and weakness after the export duty imposition. Now as per my analysis, we are still at a significant premium vs. imports from China and significant inventory build-up has happened in the last quarter. across players. Second quarter is a seasonally weak period because of monsoons, and we are yet to see domestic demand pick up in a big way. You talked about auto, but I think when I talk about the broader economy, still I think a lot of hope is there. In the second half, we should see some recovery. So how should we see the Indian steel prices coming in from here? I mean there is one thought that it's bottomed out here given the sharp decline. Do you subscribe to that view? Or do you think that there is some more time before you see stability in the Indian domestic steel prices?

T. V. Narendran: *CEO & MD - Tata Steel Limited*

So, Anuj, I think we are certainly close to the bottom, and I do see things changing for multiple reasons. One is if you look at the fundamentals of demand, forget the speculative demand. in a volatile market, people will buy more than they need

when prices go up and buy less and they need when prices go up, but if you leave that out of the equation and you really look at the fundamental demand, the biggest gain of the last three months has been auto. The commercial vehicles have finally come back to levels that we last witnessed in 2018. Passenger vehicles is also very strong, and this has a multiplier effect.

Second area is construction. Construction, apparently, a lot of projects were on hold because when steel prices went up, 80% of the contracts were on fixed price. That problem is solved. Now steel prices are around Rs 15,000/t less than what it was at that point in time. And so, the expectation is that the government is going to push the execution of these contracts soon after the monsoon. And so, we're expecting the demand to continue to be strong. In all other sectors, if I look at Oil & gas, if I look at the water for all kind of mission, all this, there's a lot of activity, which is coming in.

And generally, consumer demand has also been reasonably strong to the extent that in long products there was a price increase in the last few weeks. There is another reason for that. In long products, if you look at it, a lot of competition, which is about 50% of the industry, is dependent on thermal coal because they use DRI. Thermal coal prices are today higher than coking coal prices. We've not seen that in 10 years. And it's going to continue to face that pressure because Europe is buying coal to run their power plants. So, if you see the gap between what we call the secondary producers and primary producers, which used to be about Rs 8,000 – 10,000/t, today it's between Rs 2,000 - 3,000/t. And the secondary producers have very little room to drop prices because the DRI costs are quite high. It doesn't make sense to sell DRI below these prices. So, there is cost pressure for the secondary producers. And I do expect the underlying demand to be not as bad as one has seen because what one has seen is a response to rapidly dropping steel prices than a fundamental compression of demand. So that's why we are expecting that second half will certainly be better. while there will be a margin compression, we expect a volume expansion. We expect to sell more volumes in Q2 than in Q1. You asked about China. The Chinese companies are losing money in these prices because coking coal prices in China are still over $500 per ton. So, something has to give. The Chinese companies are already cutting production. If you see weekly data, in the last three weeks production has been reducing or they must increase prices because they are losing money. And it's only the small players in China who are still exporting it prices at which are losing money. So, there is an issue there in China. And I think over the last 2-3 days, also with this property fund and various other initiatives, the Chinese government is trying to revive the construction sector. Passenger cars are back to 2.5 million a month. So, I think that things are much more balanced today than they were 2 months or 3 months back.

Operator:

The next question is from Prashanth KP of Dolat Capital

Prashanth Kota, *Dolat Capital:*

Congratulations on very good set of numbers and not so high spike in the net debt as we saw with others. My question generally might seem a bit innocent, but the more we talk about it, the more it lingers. If we see in any cycle, from peak to the bottom, steel prices sometimes fall by as much as 60% - 70%. But then the general reason attributed today is demand. But generally, if you see the last 50 years, crude steel demand has never fallen YoY more than 5% barring the COVID crisis. So, what in your view explains this huge volatility apart from the core raw material price moment?

T. V. Narendran: *CEO & MD - Tata Steel Limited*

Yes. So Prashanth, I'll have to give you a lecture on the steel industry. But I think let me put it this way. So one is what you alluded to. A lot of the cost depends on the input costs. See, even when steel prices went up Rs 15,000 per ton in March - April, it went up because coking coal prices moved from $400 to $630/t. So, if we were buying coal, which was at $600 per ton at that time, it would have hit our cost in June. And if you didn't get steel prices at that level, it would have been difficult to sustain.

So there is a volatility, which comes in because of input cost being volatile. And that is one of the drivers of volatility. Second thing is it's a high fixed cost industry for those who have integrated steel plants. So, when it's a high fixed cost industry, if people are covering variable costs, they will continue to produce. And particularly, if they have government

support and which is what has been happening in China. So even if they were losing money people were expanding and exporting, which has now changed, but this was a problem for most of the last decade.

But if it is more private sector driven, you will see people cutting production at some point in time. So these are factors beyond demand, which exaggerate the impact. In a volatile environment, demand gets exaggerated when steel prices are moving up and demand gets compressed more than real demand when steel prices are going down because there's always a speculative element as there are traders. Even customers take positions.

If they think steel prices are going up, then they'll buy more steel than they need and vice versa in the other way around. So that is what adds to the volatility, and it's a globally traded product. So geopolitical issues have a big impact, like we've seen in the last 3 months. So, these are the factors which make it very volatile. But I think the biggest contributor to the volatility over the last 20 years has been the growth of China as both a consumer of steel and a producer of steel because that has a huge impact on everything else, and that has been the change. Earlier, the cycle used to be steel prices going up for 2 - 3 years and coming down for 2 - 3 years. Now it is -- you've seen what has happened in the last 6 months. So, the cyclicality is in shorter cycles.

Prashanth Kota, *Dolat Capital:*

And the second question sir, the coking coal prices in China probably from the Mongolian and that kind of sources more of internal is very high at $500/t or something. But then what they're importing from vs. Australia, is it closer to like $280/t versus $250/t CFR for us? Is the understanding correct?

T. V. Narendran: *CEO & MD - Tata Steel Limited*

No. Maybe 3 months back when Australian prices had gone to >$600/t. China was buying coking coal at $400/t levels. Because they were getting lot of the Russian coal. That has changed now. Russia, Mongolia, and they also buy from the US [inaudible]. So today, if you look at local prices in China for coking coal, it's in the $500 to $600/t range. That's why I'm saying the steel companies in China at today's prices are losing money. And so, it doesn't make sense. And we are seeing that happen since early June, they've started losing money. So, we'll see the impact of that. So, they don't have the advantage that we have today of buying Australian coal at $230 to $240/t or even lower.

Operator:

The next question is from Pinakin Parekh of JPMorgan.

Pinakin M. Parekh, *JPMorgan Chase & Co:*

Sir, my first question is can you give us a sense of the expected movement in steel price and coking coal for the second quarter in India and Europe?

T. V. Narendran: *CEO & MD - Tata Steel Limited*

On steel price, I want to just say that, yes, it will be lower, without being more specific because things are still dynamic. But yes, it will certainly be lower both in Europe and in India. I don't want to give you a number just yet because I think there are too many moving parts just now.

As far as coal is concerned, in India, I think we'll see a $40/t reduction in consumption cost. We are buying maybe at $150 to $160/t lower than what we bought in 1Q, on an average, but the consumption will be about $40/t lower because of lag and the impact of lower coal price will start flowing through in September for us. In Europe we will not see a reduction in coal cost simply because we have a bit more inventory there in the system. So, the lower coal price, which is again, $150 to $160/t lower than 1Q will start flowing through in 3Q. So, in Europe we may see a small increase in coal costs, maybe around € 20 – 30/t increase in the coal consumption cost for 2Q over 1Q. So, like I said, there will be margin compression in 2Q. I'm not able to give you a number yet, but there will be volume expansion. We expect to sell at least 0.5 million tons more in 2Q than we did in 1Q.

Pinakin M. Parekh, ***JPMorgan Chase & Co:***

My second question is just moving on to Europe. So, while you mentioned that Tata Steel does not have energy availability issues, a large part of it, at least in both the steel plants would be met by the coke oven gases. But there is a very substantial amount of steel production in Europe, which is electric arc furnace based. In your view, what happens to that part of the industry in the next 2 to 3 quarters if the gas supply or availability is affected compared to us?

T. V. Narendran: ***CEO & MD - Tata Steel Limited***

No. It depends on whether the country is generating electricity using gas or not. So, if you look at Europe, the most vulnerable economies are Italy and Germany because I think 40% of the gas they import is coming from Russia. If you look at France, it's got a lot of nuclear. Spain has many other options as well. So, Netherlands again is maybe 20% dependent on Russian gas. So, I think the big economies, which are going to be impacted are more Germany and Italy. And one needs to see what happens there.

Yes, one is gas availability and two is the energy cost. If you look at an electric arc furnace operation, they don't need so much gas. But if the grid is dependent on gas for energy, for electricity, then those prices will go up and if there's a shortage of gas, then there could be a shortage of electricity. The other part, what I mentioned earlier is also we have to be watchful of our customers to see if any of them are significantly impacted by it. But like I said, we are not directly impacted. We'll be watchful to see indirectly whether we will benefit because supply, as you suggested may get disrupted or if there is an impact on demand.

Pinakin M. Parekh, ***JPMorgan Chase & Co:***

Just my second question and last question on Europe is that while you did mention the company is in talks with both UK and Netherlands on Sustainability Capex. Given that Europe has gone back to restarting thermal power plants and energy security will become the dominant theme for them for the next few years, do you see the sustainability Capex finalization in both the sites to happen over the next 6 to 12 months? Or do you see that given the evolving geopolitics and the energy security dynamics, any final Capex decision gets pushed out further?

T. V. Narendran: ***CEO & MD - Tata Steel Limited***

So that depends on the pace that Europe has set itself to transition to green. There is a point of view which says that the pace may accelerate because they want to move faster into hydrogen and have less dependence on gas. So that's one way to look at it, in which case you may jump from coal to hydrogen if, for instance, hydrogen is available in cheap and plenty. But our technology choice is about converting to gas, which can be substituted with hydrogen. So, to that extent, once we are clear that we have gas and/or hydrogen, we can take that call. But I think for now, we are not seeing any slowing of the pace. Obviously, it depends on how long the conflict continues and what is a larger impact because there is another view that Russia also doesn't want to be totally undependable as far as gas supply in Europe is concerned. So, I think there are multiple angles to it, which we are watching.

Operator:

The next question is from Ashish Kejriwal of Centrum.

Ashish Kejriwal, ***Centrum Broking:***

My question is in this quarter, we have seen net realisation increase roughly around Rs 8,500 per ton. So does this realisation include auto contracts also, which we were negotiating earlier?

T. V. Narendran: ***CEO & MD - Tata Steel Limited***

Yes. Not all the benefit has come through because the contracts taking time -- I would say that it's still not fully concluded because we are discussing 1Q and 2Q. So not all the benefits of increase in 1Q have come though.

Ashish Kejriwal, *Centrum Broking:*

But sir, have any benefits been included because the last time when you guided, Rs 8,500 increase, that was in mid-May. And in June, we have seen a sharp decline in steel prices. But despite that fact, we are recording this kind of increase. So that's why I'm asking.

T. V. Narendran: *CEO & MD - Tata Steel Limited*

So there was a benefit of that, certainly. But compared to last quarter, the increase you are seeing is because we got a lot of increase in April. And then in May, even before the export duty was levied on steel, steel prices were softening a bit. But because coal prices were still quite high, we were projecting that the steel prices will remain high.

Since then, export duty came, coal prices started softening. So yes, I think there is a little bit of that, which will come back. But like I said, I don't want to suggest that 2Q prices will be better than 1Q. 2Q prices will be lower for sure.

Ashish Kejriwal, *Centrum Broking:*

So, sir, is it possible to guide us what could be the June exit price as compared to the 1Q average for India?

T. V. Narendran: *CEO & MD - Tata Steel Limited*

I will say, June exit price is about Rs 15,000/t below the April 1st or early April price. That's been the swing in the domestic market during the quarter. Let me put it that way.

Operator:

The next question is from Kirtan Mehta of BOB Capital.

Kirtan Mehta, *BoB capital*

We are aiming to start operations at NINL over the next 3 months. Would you be able to sort of give us a guidance about how do you see the operations ramping up? And how do you see the cost basically being taken out there? And what are the sort of near-term Capex to take the plant to initial operating rate?

T. V. Narendran: *CEO & MD - Tata Steel Limited*

Yes. So Kirtan, basically, we completed the transaction on the 4th July. Our teams have moved in. Now, the plant was not operational for more than 2 years. We expect to start the blast furnace in the next 3 months. That will allow us to produce pig iron, which we can sell or use. The toughest part of the operation that we need to revive is a coke oven, which had been damaged because it was shut down without taking the precautions that you need to take. So that will take about 6 months in our view. And we expect that in 6 months, we should start the coke oven., But until such time, we can always supply coke from our other facilities to NINL. We've already started the dispatch of ore from the NINL mine. So, the raw material has also started moving to NINL. We are chasing rated capacity of 100,000 tons a month. We expect to hit that by March. That's what we are aiming for. So next year, we can have a full year in some sense of production. The challenge is to get the plant in good shape. I think there's about Rs 400 - 500 crores of Capex planned, which will help us in start-up.

But more importantly, over the next 3, 4 months, we will develop the plans to expand NINL from the >1 million tons that we think we can run the existing assets for to about 5 million tons. So that will be an expansion plan, which we will focus on in the next 6 months - get it cleared with our Board and then try to execute it over the next 3 years or so. So that's primarily going to be the way we will look at it. Our teams are already in place. And like we've done in the last few years with

erstwhile Bhushan Steel or Usha Martin steel business, I think we have a playbook in place for quickly integrating these facilities into our operations and ramping it up to get the full value of the assets. So that work is going on.

Kirtan Mehta, *BoB capital*

Going back to the Europe, would it be able to possible to sort of indicate the breakeven spread that you need at UK and Netherlands operations separately.

T. V. Narendran: *CEO & MD - Tata Steel Limited*

So Kirtan, the issue is breakeven spread is also changing for multiple reasons. Steel spot spread is normally looking at raw material price and finished product prices. And we had traditionally thought the breakeven spread would be about €225 per ton. But now what is happening is beyond the spread, the other important elements of cost, for instance, gas price are not reflected in the spread. So today, we are spending maybe €100 million a year on gas where earlier we may have been spending €30 million or something like that. It may not be the exact number, but we are spending 3x to we were spending earlier. So, all this also has an impact on what is the breakeven spread. That's why today, the spreads are at around, I think in U.K., it is in the £400 - £450/t range at today's prices. And in Netherlands, it's in the €500 – 550/t. So that's the spread now. And the numbers that you see are at those spread levels, if not higher than that. So that's where it is. We expect spreads in Europe to be higher.

Kirtan Mehta, *BoB capital*

Sure. Thanks for this clarification. Just one suggestion. Would it be possible to sort of give us a sensitivity to some of these indicators like gas price? or in terms of the profit that Europe has in future. It could help us understand the magnitude or impact on the profitability from the external environment.

Samita Shah: *VP CFTRM – Tata Steel Limited*

Yes. So maybe we can discuss offline, Kirtan. It's a little hard because some of these variables, as Naren was explaining, were not major earlier, they are becoming major now. And with the evolving situation one needs to see how it plays out. So it's a little harder, but maybe we can try and give you a better sense.

Operator:

Our next question is from Ritesh Shah of Investec.

Ritesh Shah, *Investec*

A couple of questions. First is pertaining to the BSPS scheme. We had first buy-in transaction over there. If you could provide some rationale for that and the impact it will have on the cash flows. That's the first question.

Samita Shah: *VP CFTRM – Tata Steel Limited*

Yes. So Ritesh, as we have said all along, I think our attempt is really to mitigate the risk of owning large pension fund because, in some sense, when you sort of compare it to the scale of the U.K. operations, that is large. And the idea of doing this is really diversifying the risk and mitigating the risk. So, we have sold a share of the fund. There's really no cash impact because they have taken over the assets as well as the liabilities, that portion of the assets in the liability. So, there's really no cash impact to us. It's more of managing the fund and managing the risk of the fund, really, that's what it is about.

Ritesh Shah, *Investec*

Any specific quantum you can indicate over here on what has been bought in by the insurer?

Samita Shah: ***VP CFTRM – Tata Steel Limited***

I think it's about 20 to 25%. I can confirm the number to you exactly, but we have sold about 20 - 25% of the fund now.

Ritesh Shah, *Investec*

If I look at last year's balance sheet, there is a significant quantum of cash flow, which has directly or indirectly moved from India into Tata Steel Global PTE and eventually into Europe, the number is [inaudible] despite record profitability that we saw in Europe last year. What I'm trying to understand is to what extent will India directly or indirectly continue to help the European operations.

Samita Shah: ***VP CFTRM – Tata Steel Limited***

We have not actually transferred any money to Tata Steel Europe for their operations. What we have always said is that the debt, which was there at Tata Steel Europe, which has been there for a long time since the acquisition, that we are behind that debt, and we will service that debt. And what we did during the last year when the cash flows were very strong and as a part of the deleveraging strategy, we have very consciously tried to reduce our foreign currency debt to align it with our asset side of the balance sheet. So as India has been increasing, the size in India has been increasing. The asset side in India has been increasing. We wanted to rebalance our liability side and reduce the foreign currency component. So money was sent to repay some of the debt in Europe, and that's what is the flow which you are referring to. So it's gone for reducing debt, which is not for the operations of Tata Steel Europe.

Ritesh Shah, *Investec*

Right. Let me rephrase the question. So if we have to put it between the operational cash flows and financing cash flows, I think what you detailed was very categorically on the operational cash flows. If we had to understand the math from a cash flow from a financing standpoint, how should one look at it? Because the way in which I look at it as an external guy, consolidated less standalone debt is still upwards of Rs. 30,000 crores, and there is no credible source of funds, which is there, which can take care of this quantum of debt. So, should we assume that India cash flows will eventually take care of this Rs 30,000 crores of debt, over the next 3 years, 5 years, or 10 years as we pursue our deleveraging story?

Samita Shah: ***VP CFTRM – Tata Steel Limited***

Yes. As you probably know, we have tapped the capital markets previously as well through our subsidiary, which is again, part of our strategy to widen our investor base and to tap multiple sources of capital so that we are not limited to sources of capital in India or Europe. The idea was really to build a credit profile and a credit curve for Tata Steel, which has been very successfully done. So, a large part of Rs. 30,000 crores, about Rs. 20,000 crores are in the offshore capital market bond which we did. And that has always been a part of our strategy that we will be responsible for paying that. Now whether we pay it from Europe, whether we pay it from India, I think that's more of a tactical call as the situation emerges. But it is debt on our consolidated balance sheet, and we are firmly behind it. I think that we have been very categorical when we raised the funds when we have been talking to all of you. So that position doesn't change. Now which entity services it, whether it is Europe, whether it is India, that's more a quarterly cash flow kind of a decision, which we will take as it evolves.

Operator:

I would now like to hand over the conference to Mr. Hriday Nair, Chief Corporate Finance and Investor Relations, for the chat questions. Over to you, sir.

Hriday Nair, ***Chief of Corporate Finance & Investor Relations – Tata Steel Limited***

The first question is on the pellet plant. What kind of cost savings can be anticipated when the pellet plant becomes operational?

T. V. Narendran: ***CEO & MD - Tata Steel Limited***

Yes. So that depends on the pellet price because the fundamental cost saving is because when you buy pellets from the market, we are pretty much buying from somebody who's buying iron ore in the market and converting it into pellet. Whereas when we have our own pellet plant, we can use our own iron ore where the cost is much lower than market price.

So, I think that was the arbitrage at one point in time when pellet prices were Rs. 12,000 or Rs. 14,000/t. I think the cost savings were almost Rs 50 to Rs 100 crores a month. But today, the pellet prices are much lower. That is the clear direct savings that we will get. That is one. Second thing is when you have more pellets, you can improve what we call the agglomerate mix in the blast furnace and bring down our coke rates, which means you can use less coal, which has a big impact on cost as well. So, there is a significant cost impact of anything from Rs 50 to Rs 100 crores a month.

Hriday Nair, ***Chief of Corporate Finance & Investor Relations – Tata Steel Limited***

Thank you, sir. The next question is on the cold rolling mill. Can the commissioning of the cold rolling mill drive incremental revenues of Rs 1,100 crores to Rs 1,500 crores per annum?

T. V. Narendran: ***CEO & MD - Tata Steel Limited***

So typically, the thumb rule for difference between cold-rolled and hot-rolled price is about $100 a ton. So you can do the math on that. That is typically what you would look at in the long term. It fluctuates depending on the dynamics of the hot roll market and the cold roll market.

But more importantly, I think what the cold rolling mill in Kalinganagar is going to bring is to our mixes. First is the fact that the hot rolling mill in Kalinganagar makes up to 2 meter wide coils and the cold rolling mill will make up to 1.85 meter wide cold roll, this is 200 mm wider than what we get out of Jamshedpur. So, it opens new markets for us, particularly in the auto sector. Secondly, the galvanizing line there is really going to be a state-of-the-art galvanizing line. And that, again, allows us to open new segments beyond what we are already catering to. The first galvanizing line that we built in Jamshedpur was 20 years back and a state of the art at that point in time. Third is the continuous annealing line that we are setting up in Kalinganagar will also help us service the higher tensile grades. In Jamshedpur with a joint venture, Nippon Steel, we are limited to 590 and 780 NPA. This will help us cover that and more. So, it gives us a much better product mix. We need to sell less HR in the market. And with the passenger car industry doing quite well, I think our commissioning of the mill will be timed well. So, while $100/t is more commodity HR to CR, when you look at value-added high-end CR, then the margins or the gaps can be much higher, and it's a [inaudible] plant.

Hriday Nair, ***Chief of Corporate Finance & Investor Relations – Tata Steel Limited***

The next question is on capacity expansion. While we already discussed a bit, could you please throw some light on future capacity expansions and when they are expected to come on stream?

T. V. Narendran: ***CEO & MD - Tata Steel Limited***

Yes. So, the immediate focus is on expanding Kalinganagar, completing the expansion of Kalinganagar from 3 MTPA to 8 MTPA and over the next few months developing NINL plant to take it from 1 to 5 MTPA. I think this is immediate priority.

After this, there are multiple options. We have an option to expand Bhushan plant from 5 to 10 MTPA, and we can take Kalinganagar from 8 to 13 MTPA. So, we are evaluating both these choices because the advantage with continuing our Kalinganagar expansion beyond 8 is that you already have the contractors in place, the crew is in place. So, if the market is strong, balance sheet is good, you can continue Phase III of Kalinganagar even as you finish Phase II. So that's an advantage of that. With the Bhushan plant, if not 10, we can also take an interim to 6.5 to 7 MTPA. That's more to do with the balancing of the plant. So, we are looking at what is the most economic growth option that we have. The good news is we have multiple options between these 3 sites. So, we can exercise whichever option is most economically suitable.

Samita Shah: ***VP CFTRM – Tata Steel Limited***

Just to add to that, we also have NINL. So that's another option for us, too.

T. V. Narendran: ***CEO & MD - Tata Steel Limited***

So that, along with Kalinganagar, Nilanchal 1 to 5 MTPA and Kalinganagar 3 to 8 MTPA is the immediate focus.

Hriday Nair, ***Chief of Corporate Finance & Investor Relations – Tata Steel Limited***

The next question is on inventory build-up during the quarter. Inventory build-up of Rs 8,000 crores in this quarter, is it high cost inventory of finished steel, which will be liquidated in the coming quarters at lower realizations? Can you please throw some light on this inventory build-up?

Samita Shah: ***VP CFTRM – Tata Steel Limited***

Sure. So, of the total increase, which we've had in working capital this quarter, about 2/3rd was in India and 1/3rd was in Europe. And if you see the price and quantum impact, more than 50%, almost 60% has been on account of price and the balance is in account of quantity. It's more in terms of raw material and less in terms of finished goods, but we will see some of that raw material flowing through in 2Q costs as it gets converted into finished goods.

And obviously, some of the finished goods inventory we will sell in 2Q. As we mentioned, we are expecting volumes to be higher in 2Q. So, you should see a lot of the finished goods inventory play out. And the bulk of the raw material inventory clear out in 2Q in India, though in Europe, it will be more in 3Q.

Hriday Nair, ***Chief of Corporate Finance & Investor Relations – Tata Steel Limited***

The next question is on coking coal. There were a couple of media reports suggesting that China is looking to lift the ban on Australian coking coal. Could the differential between China and Australian coking coal come down if the ban is lifted?

T. V. Narendran: ***CEO & MD - Tata Steel Limited***

Certainly, it will have an impact. We've also been hearing. But 2 - 3 months back, the domestic price in China was lower than what was the Australian coking coal prices in the export market. So, at that time, the lift of the ban would have worked in our favour because Australian coal prices could have stabilized or come close to the Chinese prices. But now it's the other way around. We'll wait and see, but we have only just heard media reports. I don't think you've seen anything on the ground yet.

Hriday Nair, ***Chief of Corporate Finance & Investor Relations – Tata Steel Limited***

The next question is on the management's view on steel export duty and connected to it is the guidance on EBITDA per ton in India and Europe for 2Q.

T. V. Narendran: ***CEO & MD - Tata Steel Limited***

So, the second part, first, we are not wanting to give a specific guidance. I will just say that there will be a margin compression. Prices will be lower in 2Q than in 1Q. Some of that, we will recover because of costs coming down, particularly in India by about $40/t in terms of coking coal consumption cost. Some of that on an absolute basis, we will also recover because volumes in 2Q will be higher than 1Q. But overall, there will be margin compression, and which will obviously impact the results. I'm not giving a more specific guidance because things are quite volatile, and our job is to see how much of that we can recover in the next 2 months or so?

While we fully understand the compulsions are to put a cap on steel prices and to manage inflation in some sense. But in the medium to long term, our submission to the government has been India rightfully should be a big exporter of steel. India has the iron ore. Today, there are countries who are importing iron ore and exporting steel, whereas India has the

iron ore. Steel investments happen in some of the poorer states in the country, creates jobs far away from urban centres. And there is no reason why India should not export 50 million tons or 100 million tons of steel because Japan, Korea, all of them export 30 to 40 million tons of steel. China has, in the past, exported more than 100 million tons of steel. So why shouldn't India aspire to be a big exporter of steel when it has got the raw materials, and it needs to create jobs. So I think that's been a submission to the government that steel capacity should be created, keeping export markets in mind in addition to domestic markets. I think government is kind of supportive of our view. The question is when they will remove the export duty, and we hope it will happen sooner than later.

Hriday Nair, ***Chief of Corporate Finance & Investor Relations – Tata Steel Limited***

Thank you, sir. The next question is on the auto demand. IHS Global has predicted auto demand for H2 2022 to be higher than H1. How is that expected to play out for our company?

T. V. Narendran: ***CEO & MD - Tata Steel Limited***

So that's very positive for us. As you may know, today, we have, along with the Bhushan facilities, we have almost a 55% market share in the auto industry. So, when the auto industry does well, it's good for Tata Steel. In auto industry, the steel intensity is highest for commercial vehicles, which did well in 1Q, but it has slowed down a bit just now. We expect that to pick up once the construction activity picks up post monsoon.

The light commercial vehicle business is very strong because of the e-commerce companies, warehousing and supply chain investments happening. Passenger is very strong. It's getting over the challenge of semiconductors. Demand has always been strong, and two wheelers are also recovering. Tractors have been strong. So overall, auto seems to be on a good path to recovery, and we also expect H2 to be better than H1. And this has a positive impact on Tata Steel.

Hriday Nair, ***Chief of Corporate Finance & Investor Relations – Tata Steel Limited***

The next question is on the European business. Request if you can please help clarify if you are open to selling the Netherlands and UK business, if buyers are available irrespective of the price.

T. V. Narendran: ***CEO & MD - Tata Steel Limited***

I think what we said so far is we are focused on making those business self-sustaining and value accretive. The Netherlands business has already demonstrated that in a big way. UK business, like I said, is a bit fragile and the focus in on dialogue with the government. in the respective countries is to see how we can transition to a greener future.

Hriday Nair, ***Chief of Corporate Finance & Investor Relations – Tata Steel Limited***

The next question is on Tata Steel Long Products. How do you see margins and growth for Tata Steel Long products? Will it also get merged into Tata Steel eventually?

T. V. Narendran: ***CEO & MD - Tata Steel Limited***

Tata Steel Long Products had a tough quarter for multiple reasons. One is the auto contracts, which were supposed to have been settled but were not settled, so they did not get the benefit in the quarter as they had expected on the auto prices, which has since been sorted out. So, you will see some of that benefit accruing in 2Q. The second part is Tata Steel Long products also sells Sponge Iron. So, they were impacted by the high thermal coal prices, which started going up. And the third part is, of course, the fact that once the export duty was levied on iron ore and pellets, DRI prices were also impacted. So there were multiple things which happened, which impacted Tata Steel Long Products 1Q performance, and there is royalty that they pay to Tata Steel because of the changes in the MMDR Act last year.

On your question on merger, we will, of course, keep looking at various options. That's something which will be discussed and decided at the right time at the Board. But fundamentally, we are bullish about the long products business because as India moves into infrastructure-led growth, long products have a great future. Our product mix today is skewed more in

favour of flat products. But I think long products, we believe has a greater role to play and hence, the investments in Tata Steel Long products.

Hriday Nair, ***Chief of Corporate Finance & Investor Relations – Tata Steel Limited***

Thank you. The next question is on the domestic markets. We have invested significant amount in downstream capacity and developing markets for branded retail sales. What percentage of domestic volumes would command brand premium? And would it be fair to assume that our domestic profitability will not be as cyclical as in the past due to these initiatives?

T. V. Narendran: ***CEO & MD - Tata Steel Limited***

Yes. That's the intent. Basically, how can we be less vulnerable to the cycles. The more downstream you go, the more insulated you are. There are products that we sell per piece. There are solutions that we sell per square meter or square feet or whatever. So, all this takes away the conversation from per ton and what is the price in China and what is the price somewhere else. So that's the kind of direction. Today, about 20% of our revenues come from what we call B2C business, where we enjoy a significant premium to our competitors as well as even the same product being sold to the other segment.

So, Tata Tiscon sold to a house builder, is at a very different price from Tata Tiscon sold to a construction company, which is a B2B business. So I think that's been the focus, and we'll continue to develop that. The downstream services and solutions and the B2C business, I mean, we are always looking at it to be at least 25% - 30% of our revenues, and our revenues are also growing because the base is increasing. So we'll continue to pursue that, and we believe that, that is one part of the thing. The other part is our exposure to the auto sector and to the oil and gas sector also helps us insulate ourselves from the volatility because those are more accrual-based, quality and technology-intensive business, where there's a lot more stability in terms of prices than in the commodity side.

Hriday Nair, ***Chief of Corporate Finance & Investor Relations – Tata Steel Limited***

The next question is on Tata Steel Long products. Interest cost is higher in 1Q at Rs 341 crores. Is it a one-off? Or will this continue every quarter?

Samita Shah: ***VP CFTRM – Tata Steel Limited***

As you know, the acquisition of Neelachal Ispat Nigam Limited has been done through Tata Steel Long Products. And as a part of that, to finance the acquisition, Tata Steel has infused capital into TLSP. Our shareholding in TSLP is already 75%, so we are unable to put equity into the company. So, it has gone through a very long-dated debt instrument, which is carrying interest cost, and that is what you are seeing on the books of TSLP.

We infused the funds in the previous quarter just towards the end of 4Q, and that is why you're seeing the P&L impact of that in 1Q. The acquisition happened on the 4th of July. It's a charge not a cash impact. The cash impact is much lower because that's the way the instrument is structured, but there will be a P&L impact.

Hriday Nair, ***Chief of Corporate Finance & Investor Relations – Tata Steel Limited***

The last chat question. Congratulations on a good set of numbers. Considering that we are so attractively valued, can you please consider a pay-out through buyback rather than dividends within the overall pay-out plan?

T. V. Narendran: ***CEO & MD - Tata Steel Limited***

We'll take it to our Board at the appropriate time.

Operator:

We will now be moving on. I would now like to hand the conference back to Ms. Samita Shah for closing comments. Over to you, ma'm.

Samita Shah: ***VP CFTRM – Tata Steel Limited***

Yes. Thanks, Kinshuk. So, thank you, everybody, for joining us on the call today. I hope we could answer most of your questions and look forward to connecting with you again next quarter. Take care, and goodbye.

T. V. Narendran: ***CEO & MD - Tata Steel Limited***

Thank you, all. Thank you very much.