CORPORATE PARTICIPANTS

T V Narendran, CEO & MD – Tata Steel Limited
Koushik Chatterjee, ED & CFO – Tata Steel Limited
Samita Shah, VP Corporate Finance, Treasury, & Risk Management – Tata Steel Limited

CONFERENCE CALL PARTICIPANTS

Amit A. Dixit, ICICI securities
Anuj Singla, BofA Securities
Ashish Kejriwal, Nuvama Wealth
Satyadeep Jain, Ambit Capital
Sumangal Newatia, Kotak Securities
Tarang Agrawal, Oldbridge 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 backend 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*

Good afternoon to all our viewers and thank you for joining us on this call today to discuss our results for the second quarter of FY 23. We have with us our CEO and Managing Director Mr. T V Narendran, and our Executive Director and CFO Mr. Koushik Chatterjee, who will make a few opening comments, and then take your questions. As always, the entire discussion will be covered by the safe harbour clause on page 2 of the presentation which is uploaded on our website.

Just one announcement, we will need to end the call at 12 noon sharp. As some of you may be aware, we lost Dr. J.J. Irani, our former MD late last night, and the funeral is in a short while. So, we need to end the call strictly at 12 o' clock. The IR team and I will be available to answer any more questions. With that I will end here and hand it over to you Naren. Thank you.

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

Thanks, Samita. Good morning, good afternoon, and good evening to all of you. The last few months have seen the global economies grapple with inflation, and the ensuing rate hikes have raised concerns about growth momentum. The US economy, for instance, contracted in the first half of 2022, while the Euro area has been grappling with energy supply dynamics. In China, the prolonged COVID-19 outbreaks have led to extended lockdowns. Large steel exporting countries like Japan and South Korea have also struggled with lower domestic demand. In India, the apparent steel demand was broadly stable despite the global cues and the effect of monsoon. In Europe, elevated input costs, particularly high energy costs, and a volatile operating environment weighed on the demand. In this operating environment, global steel prices and spreads declined between July and September.

Moving to our performance during the quarter, Tata Steel India deliveries stood at record 4.91 million tons, up 21% QoQ and 7% YoY despite the seasonal factors and global cues, which is a testimony to our strong franchise, as well as our ability to retain market leadership across the chosen segments. Our Industrial Products and Products Division registered record quarterly sales and a double-digit growth. The wide product portfolio supports large infrastructure projects such as the Bogibeel Railroad Bridge in Assam, the Motera stadium in Gujarat, and the ongoing metro projects across the country.

In terms of growth projects, we will shortly commission the 6 million tons pellet plant at Kalinganagar. The cold trials are already on going and we should be making pellets later this month and this will help cost savings. This will be followed by the pickling line and tandem cold rolling mill, which is also undergoing cold trials as we speak, and subsequently, we will have the galvanising line and the continuous annealing line also commissioned over the next few months. The outer shell of the blast furnace has been erected and we are working towards bringing it online by the end of the next financial year. I am happy to state that within three months of closing the Neelachal transaction, we've been able to restart the blast furnace. As you are aware, the plant has been down for more than two years, and we've been able to start the blast furnace [inaudible] and are looking to ramp up the steel production gradually over the rest of the financial year.

Speaking of Europe, the crude steel production was broadly similar quarter on quarter basis, but deliveries were lower due to seasonal factors and subdued demand. Tata Steel Netherlands is well placed for its energy requirements as majority of its energy needs are met via process gases generated during upstream steel making, and its natural gas exposure is largely limited to the downstream operations.

Looking ahead, there are visible signs of pickup in demand in India, government spending on infrastructure is likely to drive gradual recovery in the second half of the year. In addition, the favourable movements in coking coal prices and the takeout of high-cost inventory are likely to aid margin expansion in India, particularly in the second half of the year. In Europe, the prices have stabilised in the past few weeks, but input costs remain volatile and remain a key watch point.

Moving to our strategic initiatives, we remain committed to net-zero by 2045, to pursue multiple pathways. In India the Kalinganagar phase 2 will help improve the energy balance and reduce our carbon footprint. Work has commenced at our new 0.75 MTPA EAF in Punjab, which will drive volumes as well as reduction in the emissions profile. In Netherlands, we are collaborating with reputed firms, to technically prepare for the green transition. In the UK, the implementation of the laser technology in the slab reheating heating furnace has reduced the energy use and the carbon footprint. Our sustainability focus extends to water usage and biodiversity as well. At Jamshedpur, the journey is underway to rejuvenate near-extinct water bodies. I am delighted to share that the Jamshedpur site is the first in India to achieve the Responsible Steel 'Certified Site' label and we are working towards getting all our sites certified. Our board has approved the proposal to consolidate seven listed and unlisted entities into Tata Steel to simplify structure and drive business synergies, and the work is ongoing.

Finally, I would like to talk about our digital ecosystem that is empowering the business and driving cultural readiness. Our journey that began in 2015, has created more than a billion dollars of savings at the EBITDA level, and led to connected operations, assets, connected workforce, and connected platforms. I am happy to note that we were the first steel company in India to remotely operate a sinter plant. And with that, I hand over to Koushik for comments on the financials. Over to you, Koushik.

Koushik Chatterjee: *ED & CFO – Tata Steel Limited*

Thank you Naren. Good morning and welcome to the call. Before I start my comments, I would like to start the call with a tribute to Dr. Irani who left us last night. His contribution to the company was immense and his transformational leadership style and focus on institution building has been an inspiration to many of us and many generations in Tata Steel. And today indeed is a sad day for us in the company.

Before I talk about our financial performance, as explained by Naren, the global steel spot spreads have declined during July to September period, as we witness the transition from an era of low interest rate to high interest rate environment, normalisation of demand across key regions, and high input costs due to volatile coking coal and natural gas prices, especially in Europe, even though there has been some softening in recent weeks.

With that as a backdrop [inaudible] for the quarter, our consolidated revenues for the quarter stood at Rs. 59,878 crores and were broadly similar on YoY basis, but lower than the April to June quarter. There were multiple factors for the lower revenue compared to the previous quarter. Firstly, compared to previous quarter, our India deliveries were at record volumes as Naren explained. However, the net realisation in India dropped sharply on a sequential basis, due to price pressure existing in the market. In Europe, our volumes were lower due to maintenance stoppages, but the steel price realisations were holding up. Our consolidated EBITDA for this quarter stood at Rs. 6,271 crs. and translated to an EBITDA margin of 10%. Excluding FX impact, the adjusted EBITDA stood at Rs. 5,817 crs. and on a per ton basis, was about Rs. 8,045. At India, Standalone EBITDA stood at about Rs.5,135 crs. and translates to an EBITDA per ton of Rs.10,796. The QoQ movement in EBITDA was due to drop in realisation coinciding with the consumption of higher cost inventory. Forex gain for quarter stood at about Rs. 977 crs. Excluding this, adjusted EBITDA stood at Rs. 4,158 crores.

At Tata Steel Europe, EBITDA was about £199 million, translating to EBITDA per ton of about £106. Deliveries were down by about 12% on QoQ basis, as I mentioned, due to the market conditions, subdued demand and inventory build-up was in part given the plan to realign one of the blast furnaces in Netherlands. On a QoQ basis, revenue per ton was down by about £17, while total costs were higher by about £160, primarily due to consumption of higher cost inventory.

Taxes for the quarter stood at about Rs. 1,308 crores and are made up of two components: the current tax was in line with profitability in India and in Netherlands. And the non-cash deferred tax charge was primarily due to the reduction in the surplus in the British Steel Pension Scheme (BSPS). I will elaborate on the pension scheme shortly. I should also mention that in Tata Steel Netherlands, there were unabsorbed tax losses [inaudible], these have now been absorbed fully and therefore, in the future, Tata Steel Netherlands will be paying the marginal rate of tax at about 25.8%.

In the past few weeks, I have got a lot of queries from many of you on what is happening in UK pension scheme, given the volatility in the bond yields and financial market turmoil in the UK post the mini budget. So, I will spend a few minutes to explain the pension situation. Many of the UK pension schemes have recently faced margin calls on derivatives used to hedge interest rates and inflation. So, while the British steel pension scheme also had to post the additional collateral to keep the derivative positions in place, given a very low risk profile, we have been able to meet all calls for the additional collateral to date without any distress selling, and have further head room, should the need arise. The scheme remains in surplus of about £1.49 billion, based on IAS 19 as on 30th September 2022. We do not foresee any funding support as the scheme is structurally adequately ring-fenced. To de-risk the scheme, the British Steel pension scheme has an umbrella agreement with Legal and General, towards de-risking the scheme through insurance buy-ins. The scheme and L&G have been executing insurance buy-in in tranches of about £3 billion so far, which is about 30% of the scheme liabilities. This insulates the company and the scheme from any potential market movements [inaudible]. We continue to explore further possibilities with L&G, for the further tranches of buy-ins and it all depends on the market conditions. Each buy-in also results in a reduction in the pension accounting surplus, as the scheme becomes smaller. The movement in the surplus is accounted for through the OCI (Other Comprehensive Income).

Consequently, there is also a non-tax deferred tax expense, non-cash expense in the P&L recorded. That is why you will continue to see some of these non-cash deferred tax expense in the consolidated account relating to the BSPS until it is fully de-risked. But given the fact that this is such an important de-risking strategy, such tax charges on the non-cash basis are bound to happen.

This quarter also saw clubbing of several large cash pay-outs. We paid about Rs. 6,292 crores on account of the highest ever dividends. We acquired Neelachal Ispat on July 4th and had to pay almost Rs. 10,000 crores. The capex for the quarter was about Rs. 3,198 crores and it was driven primarily by Tata Steel Kalinganagar project. As a result, our gross debt increased by about Rs. 4,919 crores. However, our financial metrices continue to remain well within investment grade and our group liquidity remains strong at about Rs. 29,480 crores.

Moving on, the operating environment should gradually improve in the second half of this year, and steel margins, especially in India, should benefit from the favourable movement in the coking coal consumption cost. Most of the higher cost inventory of the first quarter has been consumed in the second quarter, which should help in normalising the working capital. We continue to remain focused on cost optimisation and operational improvements to maximise the cash flows. Our deleveraging strategy and goal continue to be the same, even though there will be challenging times when we may not be able to achieve on a quarter on a quarter basis. Our capital allocation is clearly focused on completing Tata Steel Kalinganagar project. With the improvement in the cash flows, in the future we will aim to leverage down again towards end FY22 levels, and we continue to look at opportunities to deleverage further in the future. With that I will close my comments and open up for questions. Thank you very much.

QUESTIONS AND ANSWERS

Operator

The first question is from Sumangal Newatia from Kotak Securities.

Sumangal Newatia, *Kotak Securities*

Good morning and thanks for the opportunity. The first question is on the domestic steel prices. Last couple of months we have seen some stability in the prices. If you could just highlight or share your guidance on 3Q, how do you see the NSR movement? And also, some outlook, given that Indian prices have been at premium to import parity, do you see any pressure in the coming months?

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

As far as domestic prices are concerned, yes, you are right. There's been stability, and because of stability people have stopped postponing purchases. That's one important change, because when the prices were dropping, people were postponing purchases. Second thing is, we are coming out of what is typically the lean quarter, the monsoon is when the construction activity slows down. So, particularly for long products it's a difficult quarter.

Thirdly, yes, you can see the auto industries doing quite well across all sectors, even the medium and heavy commercial vehicles, which had slowed down a bit, have started picking up again. So, I think all indications are that demand is quite strong. It has been quite strong for the July-September quarter and continues to be strong, as it is expected to improve post festival. Further, a lot of destocking has happened. There was a build-up of stocks, both in flat products and long products but I think a lot of destocking has happened and that's why you are seeing that balance in prices. So, we are expecting prices to be stable or trending upwards. We should also keep an eye on the coking coal cost, which had gone down to $250/t, it's now back to $300/t. So that's also adding to cost pressures.

As far as Tata Steel guidance on NR is concerned, our guidance for 3Q is about Rs. 800 per ton lower than 2Q, largely because of the auto contracts where negotiations for H1 were concluded rather late and we had some debit and credit notes, which helped us in the last quarter particularly. But otherwise, if I look at it on a product-to-product level, if I look at the base grade commercial hot rolled coils, we are expecting this quarter to be higher. But on a weighted average basis, we are expecting the realisations to be about Rs. 800/t lower in 3Q than the previous quarter. In terms of imports, as of now there's not much pressure, simply because every now and then there is a talk of some parcel or the other coming from somewhere. But a weaker rupee obviously keeps some sort of cap on the imports. So, imports are not yet a big threat and I think there's a risk involved if you are booking today and expecting cargo to come in two-three months. And I think that's why the domestic supplies are also helping people manage their working capital better because you can book your orders and get the materials on a daily basis. So, I am not seeing, as such, any great import threat just now.

Operator

The next question is from Amit Dixit from ICICI Securities

Amit Dixit, *ICICI Securities*

I have couple of questions. The first one relates to the BSPS scheme, particularly the umbrella agreement with Legal and General. I didn't understand it fully, if you could explain again the kind of arrangement you have and are there any conditions precedent to Legal and General stepping in and supporting the pension scheme
The second question is on coking coal. What kind of coking coal price decline, on consumption basis, can we expect in India and Europe. And in Europe, if you can also let us know the iron ore price decline that we can expect going into 3Q.

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

So, I will address the second one and then I will handover to Koushik for the first one. As far as coking coal is concerned in India, we are expecting on a consumption basis, drop of about $80/t, and in Europe about $100/t, as far as coking coal is concerned. Iron ore in Europe will be about $15 per ton lower QoQ.

Koushik Chatterjee: *ED & CFO – Tata Steel Limited*

Yeah, so on the BSPS, Amit, I wouldn't go into too much of history. But as we stand post the RAA (Regulated Apportioned Arrangement) which was undertaken in 2017-18, what we have is a scheme which is in surplus. On an IAS 19 basis, the surplus is about 126%. The next step of de-risking is essentially to ensure that the scheme moves out of active management and gets converted into an insurance policy for the pensioners. So, there is management of the assets, and the liabilities will effectively be done by the insurance company. That process is essentially called a buy-in process. So, first up what happens is the parts of the assets company, depending on how the market is, the reinsurance market is liquid, there are tranches in which you continue to do this activity. So, of the total scheme size, say £8 billion, we have completed about £3 billion in two tranches. And effectively the assets are now managed by Legal and General, and this is backed by an insurance policy.

So as far as the scheme is concerned, they have an insurance policy of up to 30% of the liabilities which is being managed by Legal and General. So, there is no recourse to the company. The assets have moved. As it moves, the surplus also moves, on the pro rata basis, as the surplus moves, the surplus becomes smaller. And when the surplus changes happen, the accounting of that surplus goes through the OCI, and the deferred tax is a non-cash charge which comes into the P&L. So, this is, in simple terms, this is what happens. Our aim is to continue that buy-in process as and when the market gives opportunities. It's large size by any standards, especially in the UK and therefore, it goes in tranches. We did a pilot of about £500 million and then we followed up with a £2.5 billion and we will continue to look for more opportunities. So that is in effect the situation. The scheme as the surplus is moving, assets are moving, the liabilities are getting moved, so the scheme surplus continues to be at about 126% on IAS 19 basis. That's how you should understand or look at it.

Operator

The next question is from Satyadeep Jain from Ambit

Satyadeep Jain, *Ambit*

Just a couple of questions. The first one, Mr. Naren I think we saw a CNBC flash where you mentioned, I think Europe would not be an EBITDA loss in future. Just wanted some clarity as to what is driving the confidence, if that statement is correct, given we are looking at more headwinds possibly in this second half. And related to that, there’s EBITDA positive and the other one angle is cash positive. Historically, the company had talked about, a spread of about €240/t, as a breakeven point. In your own presentation, adjusting for energy and carbon, it looks like the spreads are lower than that number. So, are we looking at possibly a cash negative situation? If that is the case, where is that funding going to come from, at the debt level at the European entity. That’s the first question.

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

Let me clarify what we said yesterday. I think, there was a specific question on whether we expect Europe to be EBITDA negative in the second half, and the answer was no. I think that was a more specific comment, rather than say forever it's going to be EBITDA positive, while that's what we are working towards. But my comment was related to H2. So, if I look at the specific point that you raised, yes, the traditional way of looking at spreads has changed in Europe. Because, typically when you looked at spreads, iron ore and coal were the biggest component of costs. So, while they continue to be the biggest components of cost, energy and carbon are also important components of cost. So, when you look at spread, you have to, in some sense, look at spread adjusted for carbon costs and energy costs. The carbon, energy cost, both the carbon cost and energy cost peaked about three months back. Carbon costs have dropped a bit. Long term trend may be to increase, but just now it has dropped from its highs of over €80. It is now I think around €67 or €68.

In terms of energy and gas prices, as you know they have dropped significantly over the last three weeks. More than that, we’ve always had a hedging strategy. So, when you look at our costs, you will see that both in Netherlands and in UK we have typically hedged 75% going forward. So that’s insulated us to some extent against the cost increases. On top of that, particularly in UK, we have some support from the government, which is capped, the cost, at least till April we have some comfort there. So, in terms of cost, we believe, in some sense, the worst is behind us, and we will start also seeing the benefit of coking coal prices that I guided sometime back, of $100 drop in 3Q compared to 2Q, and iron ore which is soft to also be $10-15 lower. On the cost side, I think we’ve gone [inaudible] the peak.

On the revenue side, there are two parts to it. One is the spot prices which have been lower than the long-term contract prices. The long-term contract prices are with us till December. So that gives us some comfort for 3Q. And the discussions are going on about next year’s contracts. I think in Europe there is a little bit of concern amongst customers about supply reliability, because as you know there are many facilities in Europe which have shut down because of high energy cost, those who have been more exposed to energy cost. Whereas facilities like the one in Netherlands is fairly well balanced as far as energy balance is concerned. And so, we are less vulnerable to pricing energy cost than some of the other steel sites. We do see customers wanting to contract with safer sites. And that also gives us some comfort. That is the basis on which I talk about H2. Certainly, there will be margin compression in H2 in Europe. There will be margin expansion in India, the way we see it. Because Europe has had the benefit of high price long term contracts for most of, rather for the whole of this calendar year. So, we will deal with that, but we are, as yet not seeing a situation where we are EBITDA negative and I don't think we will be there, that is one point.

In terms of cash, yes, the Dutch business has traditionally been cash positive and we expect it to be cash positive. We have had to build up some stocks because there is a blast furnace relining, which is due in the first quarter of next year. And we built up about half a million ton of slab stocks particularly for that. So that even when the blast furnace is down, we can keep the downstream units running based on the stocks that we built up. So that has taken a bit of a drag on the working capital. But we will keep diluting that. We are diluting the finished good stocks as things improve. And these slabs stocks will be diluted, you know as we do the shutdown. UK continues to be a challenge. And that’s something that we’ve stated upfront. We are in discussions with the government, and we will take a call. Now that we have a new government, let's see what the response is. But UK, yes, is clearly the most fragile part of our business and it is going to be a struggle to keep it cash positive. We will deal with it when we reach there.

Satyadeep Jain, ***Ambit***

Second question is a follow up on the UK question. Management has also been touch with government from the last two years. There are other companies that are also taking a lead in the decarbonisation and even Tata Steel Netherlands looking to sign an MoU with Ford on Hydrogen steel. Given that backdrop and you are looking at carbon border adjustment tax where allowances would start dropping in future, the UK one is the one which is higher emissions within the Tata steel Europe portfolio. Two-part question to that again. Is the 50% contribution that you are looking at from the government, or about 1.5 billion pounds sacrosanct? If you don't get that contribution, is this a no-go? And when do you say that enough is enough and there is no option but to pull the plug. Because this is going on for about two years.

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

So Satyadeep, yes, you know, Europe and UK are basically ahead of the rest of the world in terms of planning for transition, right. Because a policy framework is there, the carbon border adjustment mechanism has been announced, there are carbon costs etc. But one thing which we are highlighting that governments are providing support. This transition cannot happen without government support. And if there are governments supporting steel sites in some parts of Europe, then even to ensure a level playing field, you need to make sure that the similar principle is followed in other sites. So, the ask, generally of steel industry [inaudible], is largely at least 50% of the capex should come from the government and this is to help transition, and it's not an unusual ask. Because even if you look at the solar industry or most other industries who transitioned, the power industry’s transition to green, they have got support from the government. So that is one part of it, and I think some of our peers have said that they have already got some support. And certainly, our ask of the governments we are dealing with is to get at least that much support.

The second part of the support is on the OpEx. Because even in UK, the energy cost in UK even as we stand is, I mean even before the crisis, was twice the energy cost in Europe. And if you go into transition into a process route which uses more energy than the energy generated on the gases that is there in a typical integrated steel plant site, then you would look for the support. So, I think the steel companies across Europe are looking at the support as a starting point for planning the transition, I think we’ve had submissions made and we’ll await the conversations. I think in UK the conversations as you said have been going on for some time. The political situation has not helped us conclude. And as we’ve said before, breathing space available to us is less in UK, than in other sites. And obviously as the spreads compress and margin compresses, we are certainly running out of time, and that’s the conversation we are having with the UK government. So, let’s see. Over the next few weeks or months, we’ll hopefully have more clarity on that, and we’ll take a call as appropriate when we reach there.

Operator

The next question is from Anuj Singla from Bank of America

Anuj Singla, *BofA:*

Thank you so much for the opportunity. Two questions. The first is on the deleveraging target. So, when we look at the net debt for this quarter of Rs 72,000 crores, we started at Rs 51,000 crs., even if we exclude Rs 12,000 crs. for NINL, that puts the number at Rs 60,000 crores. I think Koushik mentioned in one of his comments that we are targeting Net debt to be flat versus FY22. So just some more clarity on that. Does it mean that the $1 billion deleveraging target is on pause for this year? And the second part of that question is, what kind of working capital release are we building in the second half of the year?

The second question is on Europe. On the European side, can you talk about the disruption being caused by the energy on the customer side? I do understand that Netherland operations are very well balanced. But can you talk about the disruption on the customer side. Because, ultimately if there is disruption on customer side, that is going to impact operations as well, indirectly. So how should we look at the 3Q numbers in that context? Thank you.

Koushik Chatterjee: *ED & CFO – Tata Steel Limited*

Yes. So, if you look at the second quarter, we had almost about Rs 20,000 crores of cash outgo. We had a negative working capital of about Rs. 1,400 crores, across on a consolidated basis. And obviously given the lower margins, the operating capital before that was much lower than the first quarter. And what I’ve mentioned is that the deleveraging, as a journey, is on the same path. There is no change. In fact, the first year, when we said a billion, we achieved a billion. The next year we couldn’t do that because of the market conditions. The third year, which was last year, we could do almost three times that number. And this year, given the market conditions and the acquisition of NINL, as the two specific points, we had, obviously, a challenging second quarter, from a cash flow point of view. [inaudible] as Naren mentioned we have built up stocks in the Netherlands, for the BF6 reline early next financial year. So that is also a contributing factor towards it. Because, in India we did have a working capital release in this quarter. But I think the way we should look - our capital allocation is focussed primarily on the targets that we had given at about Rs 10 to12,000 crores. We will be on track of that. The working capital release, in India, is something that we are looking at further in the next two quarters. Also looking at options in Europe other than stock build-up in slabs as to how we can release same.

And obviously we've improved our underlying operating conditions in India. Our cash flows will be better than what we've seen in the second quarter. So, all that in together, I said our aim is to see as to how to get back to FY22 end levels, not necessarily at the net debt, but certainly at the gross debt level. And I think that is because net debt is a function of how much cash you carry. And therefore, we should look at the gross debt numbers because those are the ones, we will be looking at repaying. We also have large number of scheduled repayments coming next year, which is what we will plan for. I think the journey is ongoing. The question is the pace and the timing of it, and given the underlying operating conditions, we will have to match up between the capital allocation as well as the deleveraging target. But the focus on deleveraging continues to be the same as before. There is no change when it is in good times and no change when it is in bad times. But every quarter you can't do it linearly. It will go up and down. And that's how the cycle moves. And that's how our actual repayments or prepayments move. So that's what I want to explain because there has been some misquoting out of context. So, I just want to explain, deleveraging focus remains the same, deleveraging target remains the same. Sometimes we overachieve it, sometimes we are struggling to meet the targets. But that's fine because we are not changing course here.

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

So, Anuj, on the second part of your question, so it's like this right. I think there was significant concern three months back because of rising energy prices plus gas availability. But Europe, as you know, started working on stocking up on gases. They encouraged a cut in consumption. And I think there has been at least 20% cut in consumption. Plus, they've stocked up quite well, you know either out of Norway or from LNG. If you generally see, most European countries have fulfilled their goals of storage. So, unless this winter is very severe, there's not much concern over the next three to six months over gas availability. There was obviously a concern on gas prices but given that the gas availability is looking stable for the next six months, gas prices have also started to drop. There is a longer-term concern, but that is more to see how you deal with next years' winter. But I think Europe is also moving very rapidly into alternate sources for gas, whether it is from the US, whether it is from Norway, or whether it is getting LNG.
So, as far as our customers are concerned, we are less concerned today than we were, maybe, three months back on energy disrupting their short to medium term operations. Second thing to keep in mind is, there are also supply disruptions. If you look at the aluminium industry, they are struggling, because they are more energy intensive than the steel industry. If you look at the steel industry, the more energy intensive sites are the sides which are more dependent on gas, or the sites which are electric arc furnace based, or sites that don't have the gas balance that we would have. So, I think, if you look at the closures in Europe, the more energy inefficient sites are getting closed. So that's also driving a little bit of demand supply balance, even if there's a little bit of a shrinkage of demand.

And, the third point is, imports into Europe. The biggest exporter used to be Russia. That's out of the system. As you know, Europe is also bringing in regulation to make sure that Russian slabs don't come in beyond, I think, October next year. There's a fair amount of control happening on that. A weaker Euro also works against imports. I see headwinds, but I also see that there are some balancing factors which will make sure that, it will be a challenging half year, but I think maybe not as bad as we had thought maybe 2-3 months back

Operator

The next question is from Tarang Agarwal from Oldbridge Capital

Tarang Agarwal, *Oldbridge Capital*:

Yes, hi. Couple of questions. One, on Europe. What's the cash burn that you are anticipating for the UK business for the FY23, given the state that we are in currently.

And, number two, there seems to be a wide disparity in terms of the long-term realisation in Europe, the prices that are being reported and the market prices that we get. So, is it because the spot market is highly illiquid, therefore the prices may not be truly representative of what's happening in the market?

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

I'll address the second part and ask Koushik to answer the first part. You know, the spot market prices are not necessarily the price that a typical steel company realises. They are typically reflective of transactions which happen. It's a 160 million tons or a 150 million tons market. So, you know, few parcels here and there sold at some prices don't truly reflect the market prices. You typically see our realisations are higher than what is reported as spot prices, and obviously the annual contracts. Two years back it was lower than the spot prices and the spot prices went up. But in a weakening, or in a weaker market, you typically find the annual contract prices are higher than the realised prices on the regular market [inaudible].

Koushik Chatterjee: *ED & CFO – Tata Steel Limited*

So typically, I think, at midcycle level, with the current level of sustenance capex, its maintenance etc, we are seeing in the UK of about £100 million of cash burn, on a cash flow basis. The first quarter, for example, we were significantly cash positive, but considering the winter months and the shutdowns and where our maintenance costs are going to be, because, as Naren mentioned, the assets in the UK are also older than in the Netherlands, and in fact, in the rest of the portfolio that we have across Tata Steel Group. So, it will become maintenance heavy in due course of time. But largely, we are looking at around £100 million on a broad basis.

Operator:

The next question is from Vishal Chandak of Motilal Oswal.

Vishal Chandak, *Motilal Oswal*

Thank you. So given that you've acquired Neelachal Ispat Nigam Limited and in the past, you've mentioned that you have land balance available to expand up to 40 million tons at the existing locations, would the company really have any appetite for RINL acquisition, or we are done with acquisitions in India, at least for now?

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

Vishal, I think, what we were basically saying is that at Kalinganagar, between Neelachal and our existing Kalinganagar site, we have 6,000 acres, right? So, we are today producing 4 million tons there, 3 million tons in Kalinganagar and 1 million tons in Neelachal. We can take that 4 million to 25 million tons, in that place alone, you know. When you have that opportunity to scale up in a single site, that's more attractive than most other options that you'll have. We really don't need to pursue other options. We also have an option to grow in Meramandali or Angul site, from the current level of 5 million to 10 million tons. In addition we have our strategy of setting up EAFs. So, I think Tata Steel's growth ambitions can be met through existing sites. I think that's what we would say. And obviously any opportunity will be weighed against this advantage that we have

Vishal Chandak, *Motilal Oswal*

My second question was with regard to the decarbonation strategies at Tata Steel Netherlands. UK, obviously, you've clarified that if there is no government support it's a no go and you'll be looking at options on how to, you know, close the facility. I don't know if that is really an option and how that will work. But in Tata Steel Netherlands what kind of capex are we looking at, and how do we plan to fund? Would the entity [inaudible]? Can it generate cash flow sufficient by itself? Or it would ultimately be the support from the Indian parent entity as well?

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

If I were to answer it slightly differently, right, so firstly, Netherlands has been cash positive and we are working on building a corpus to help with this transition. But having said that, I think the submission we have made to the government is that, if in Europe, some sites get support from the government, then we also need to ensure that it's a level playing field. So, there is a need for a similar support, if a site in Germany or sites in [inaudible] percent of the capex, there is no reason why we would also not ask for that. Otherwise, how will you ensure that it's a level playing field if some sites have more advantage than the other? I think that's the principle on which the submission is. Of course, parallelly we will try to make sure that we create as much of a corpus as possible. And I think our guidance to all our units, which we've said before, is that they should be self-sufficient with the cash they generate from all the plants that they have. Koushik, you want to add anything?

Koushik Chatterjee: *ED & CFO – Tata Steel Limited*

No. That's perfectly fine. I think the principle is to get the government support. And the point that Naren just mentioned that we have already started internally escrowing cash flows as far as the company's contribution is concerned, from Netherlands. And between these two, it should meet the requirements and that's how we are envisaging it. It's also important to mention that these are not like spends in one year or two years. It is a spend over a period of time. So there is a longer transition period in the decarbonisation journey that will happen. And I think that is needed to be taken on board, because it will cross possibly be more than one cycle, up or down. And therefore, we will have the opportunity to keep banking the free cash flows of Netherlands and investing in decarbonisation.

Operator:

The next question is from Ashish Kejriwal of Nuvama Wealth.

Ashish Kejriwal, *Nuvama Wealth*

Thanks for the opportunity. My question is, is it possible to quantify what kind of inventory loss we witnessed in India in second quarter? And secondly, is it possible that we can break down the EBITDA of European operation between UK and Netherlands? And you know, can we do it in future also going forward? That will be helpful.

Koushik Chatterjee: *ED & CFO – Tata Steel Limited*

So as a segment Ashish, we treat the TSE as one. And therefore, purely from a disclosure point of view, it is still one portfolio, the way we manage it from India. That's why we don't give the segregation. Because it must be followed through completely. And that's a big exercise. And we do the consolidation of TSE even for the Tata Steel board

Ashish Kejriwal, *Nuvama Wealth*

The impact on P&L because of the use of high-cost inventory in second quarter.

Koushik Chatterjee: ***ED & CFO – Tata Steel Limited***

So, there is a mix of both. There is an inventory on the FG side and there is an inventory on the raw material side. For example, the finished goods inventory that we had, in the first quarter end, which we sold in the second quarter, and then there were raw material inventories. But just to give a sense, there was a total inventory release of about Rs. 5,300 crores during the second quarter in India, which had a price impact as well as a quantity impact. And that to me is the more important part because that was the release that happened. So that had obviously a cash impact to it and then there was a P&L impact because that included a higher cost of that. But we can't quantify between the raw materials and the finished goods how much was the per ton compression. But from a quantifiable point of view, the cash point of view, we had a release for about Rs 5,000 crores, only on account of inventory.

Ashish Kejriwal, ***Nuvama Wealth***

Understood. Sir my only question is, while calculating for third quarter, what one should take as an EBITDA, if we assume that there will be no further uses of high-cost inventory which we have already used in the second quarter?

Koushik Chatterjee: ***ED & CFO – Tata Steel Limited***

So, you heard Naren say that, as far as coal is concerned, there will be on a consumption basis a $80/t reduction. So that I think is the most important part because iron ore is not an element which has volatility as far as India is concerned. So that is certainly [inaudible] that will come in from a cost point of view, because that's consumption cost and not the procurement cost.

Operator:

I would now like to hand the conference over to Ms. Samita Shah for the chat questions. Over to you ma'am.

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

Yes, thanks Kinshuk. In the interest of time, we will take some of the questions, I think some are repeated. So firstly, there's a question on coal. The question is, what is the view on coal prices and why do we think, do we think they are going rise further? And if yes, why? Some colour on what we expect the coal prices to be going forward. I know we gave the guidance, but I think at a broader level what is the coal price movement expected to be?

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

I think, you know, while Iron ore reflects more demand sentiment, Coal is a balance of demand and supply. Because coal is less liquid, at least coking coal is less liquid than iron ore, right? So that's why this time of the year, normally coal prices trend upwards because there is always a concern about weather event in Australia that disrupts supplies. That's why coal prices, which dropped down to $250, went up to $300. We expect it to stay around this level. That's the way we see coal prices. The other reason why coal prices stopped dropping, was thermal coal prices went up two months back, when Europe started buying a lot of thermal coal. And as you know, there was a time when thermal coal prices were higher than coking coal prices. So, the overall sentiment changed a bit, and many coking coal producers also found they could make more money by selling it as thermal coal. So, there were all these things happening. But I think there is more stability now. We expect the coal prices to stay in this $250, $300, $325 range and fluctuate within that range. It's not going to drop below that because even in the medium to long term, the liquidity in the market is not great.

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

Thank you. There are also a few questions on China essentially saying that, have production cuts stopped in China and is there a risk that Chinese steel exports will come back and flood the market and depress the steel prices further?

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

The interesting thing is, though China has had its own set of difficulties from a macroeconomic point of view, and construction which consume 60% of the steel produced there has struggled. Still, we have not seen Chinese exports the way we saw in 2015. It is still in 5 million tons range. In fact, it is trending down for the past few months, after hitting a peak of maybe 7 million tons and now it's running at 5 million tons or lower, which is a manageable volume for the global steel industry. This is largely because Chinese steel companies are not making money at these prices. So, if you really see the margins of Chinese steel companies, pretty much everyone is negative. They have very little appetite to keep dropping prices. And that's why they are not as aggressive in the international markets. And there is also a lot of production which is being cut. The production, in some sense, has kept pace with consumption. If consumption drops, the production is also dropping. And they are coming into winter months, where there are normally production cuts as well. So, I think we are not seeing a big issue of Chinese exports. Exports are more coming out of Japan and Korea. Japan is exporting aggressively because they are benefitting from the weak yen. Korea had supply side issues, but they have traditionally been a big exporter.

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

Thank you. There are a few questions on our growth plans - we have said we will double our capacity from here, but given the cash flows and given the performance of the company, are we still committed to that? And what does that mean in terms of, sort of the broader capex outlook for the company?

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

So, I think, the advantage we have today is, most of our growth plans are around organic growth. The last five years, most of our growth came from inorganic growth. So, when you are chasing or when you are pursuing inorganic growth opportunities, you are limited by the opportunities that come your way and the timing of that. This way we can pace our growth well. And just like we slowed down on the Kalinganagar expansion two three years back, soon after we acquired Bhushan, just to manage our deleveraging goals and cash flows, we have that opportunity, if really that outlook continues, you know, to be bad, which we don't think so, we can reflect on the pace that we want to grow. So we are in a good position that we have the optionalities. We don't need to pursue inorganic growth to achieve our ambitions. We have enough sites which can grow in the existing portfolio. And we can pace our growth depending on the cash flows that we generate out of India. We believe that on a through cycle basis, the cash flows that we generate out of India will help us grow in India without adding to the debt. And I think, that's the position that we are in. But we'll review it quarter on quarter. Just now the focus is on completing the Kalinganagar expansion which should be completed in the next financial year. That will add another five million tons capacity and [inaudible] to our bottom line. And we have drawn up the plans to expand Neelachal, we are also drawing up the plans to look at Kalinganagar expanding from 8 to 13 million tons, as well as Bhushan from 5 to 10 million tons per annum. But we will decide on how to prioritise and pace those projects or phase those projects based on the situation on the ground.

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

And there is a question on the Kalinganagar expansion, that I think Koushik you did mention that we are committed to it. But, since there are questions, I will ask again. What is the progress on the Kalinganagar expansion? When is it expected to reach 8 million tons? And are you still committed to completing it?

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

So, basically as I mentioned, this quarter the pellet plant and the PLTCM which is the cold rolling part of the cold rolling mill will start. Cold trials have already started. In the next financial year, we will complete the upstream. We had taken a pause on the upstream during COVID, and then we restarted it last year. So, the focus was on setting up the pellet plant which helps us bring down the cost and setting up the cold rolling mill which helps us in the product mix. But next financial year, we will be commissioning all the facilities. So, the volume impact of the expansion will be felt, not in next financial year, but in the financial year after that. Next financial year you'll see the benefit of the Neelachal Ispat Nigam Limited, facilities coming on to one million tons. By the end of this financial year, we hope to be able to ramp it up to the rated capacity, which means next financial year we'll have full benefit of Neelachal volumes.

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

And the last question we will take is on Tata Steel long products. The question is why are they reporting operating losses on a back-to-back basis for the last couple of quarters? And is this just the royalty payment which is due? Or is there anything else which is contributing to this performance?

Koushik Chatterjee: ***ED & CFO – Tata Steel Limited***

I think the royalty payment certainly hurts at the time when the steel realisations are down. I think from our cost take out point of view, post integration, a significant cost has been taken out. And we have an improvement programme. So, I don't think, from an underlying operating point of view, there's any issues. It obviously is exposed to the steel cycle. But the royalty as an additional charge, and secondly if you look at also from the finance cost point of view, because the acquisition of NINL was done through TSLP, a significant part of the funding has gone from Tata Steel. And therefore, on a standalone basis, it is reporting losses. But if you look at it from consolidated point of view, the financial cost gets eliminated with Tata Steel. So, I think these are the two main reasons. We could look at it from a standalone perspective. And both are actually [inaudible] and not necessarily operations. And that's one of the reasons why this whole merger actually helps that business to consolidate with Tata Steel and ensures that some of these are addressed.

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

And in the last quarter, we had a specific impact of the Neelachal Ispat Nigam Limited's cost coming in with no revenues coming in from Neelachal, which will start changing going forward

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

So, with that, I think, we will end the questions. Thank you very much everybody for joining us and if there are any additional questions, the IR team and I will be happy to take them. Thank you. And connect again in the next quarter.

Koushik Chatterjee: ***ED & CFO – Tata Steel Limited***

Thank you very much.

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

Thank you.