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
Anupam Gupta, IIFL
Indrajit Agarwal, CLSA
Kirtan Mehta, BoB Capital
Pinakin Parekh, JP Morgan
Prashanth Kota, Emkay Global
Ritesh Shah, Investec
Satyadeep Jain, Ambit Capital
Sumangal Nevatia, Kotak Securities
Tarang Agrawal, Oldbridge Capital

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, good morning, and good evening to all our viewers joining us today. Welcome to this call, and thank you for dialling in. We have with us our CEO & MD, Mr. TV Narendran, and ED & CFO Mr. Koushik Chatterjee to discuss the results and walk you through any questions you may have. Our presentation which describes the results have been uploaded on our website. Do go through it if you haven't already. We will take questions in audio as well as chat mode. Before I hand it over to them, I would just like to draw your attention to the safe harbour clause on page 2 of the presentation, which essentially will cover the entire discussion today. Thank you. And over to you, Naren

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

Thanks, Samita. Good day everyone. A bit of a narrative on the way we see the situation. The global operating environment has continued to be volatile during the quarter amidst inflationary pressures, tightening financial conditions, and COVID overhang. Among key economies, the US and EU witnessed a QoQ decline in industrial output, while China's GDP grew at its slowest pace since 1976. Given this backdrop, global steel prices continued to remain under pressure for most of the quarter and resulted in subdued steel spreads. In EU, the steel spot spread including energy and emission related costs was close to $200/t. In India, the economic activity remained resilient. However, depressed international prices weighed on sentiment.

Moving to our performance, Tata Steel India deliveries stood at 4.74 mn tons and were up 7% YoY, primarily driven by 11% growth in domestic deliveries. Our domestic deliveries grew at a faster pace than the Indian steel apparent consumption, which was about 8% YoY. This reflects our strong market presence across segments and agile business model. Some of the highlights include - Value added segments like oil & gas, infrastructure, solar and retail housing growing by about 17% on YoY basis, in part due to the expanding product range and innovative solutions. Tata Tiscon, which is largely sold to retail customers, registered best ever quarterly sales. We continue to expand our physical reach via new dealers and virtual reach through Tata Steel Aashiyana, our eCommerce platform for individual home builders. Sales through Tata Steel Aashiyana have consistently grown over 50% in the last two years. Our sales to the MSME sector have grown 25% to 30% YoY in the last two quarters. We have moved from tracking 6 segments to 80 micro segments, which has helped us to understand customers better and enhanced the ability to move material across micro segments based on demand.

Looking ahead, we expect Indian steel prices to move higher based on improved expectations about China demand and sustained government spending on infrastructure in India. The raw material costs are likely to remain range bound. The fourth quarter is also a seasonally a stronger quarter in terms of deliveries, and we are looking to leverage the momentum. We continue to progress on expanding our capacity across multiple sites in India as we look to grow to 40 mn tons. Volume wise, FY24 should fully reflect the 1 million tons per annum in volumes at NINL while FY25 and FY26, will reflect the 5 million ton expansion at Kalinganagar and a 0.75 million ton of the electric arc furnace mill in Ludhiana. We are parallelly expanding our downstream operations at tinplate, wires, and tubes. [inaudible] expansion in tinplate is from 0.38 MTPA to 0.68 MTPA. The wire capacity is being expanded from 0.47 to 0.55 MTPA and the tubes capacity from 1.2 MTPA to 1.5 MTPA. Separately, phased commissioning of the 6 MTPA pellet plant at Kalinganagar has begun and we should stop buying pellets from 2QFY24, which will help reduce our costs. We are also looking to commission the PLTCM, which is a Pickling Line and Tandem Cold Mill, which is part of the 2.2 MTPA CRM complex during this quarter.

On slide 19, we have provided some details of domestic deliveries across sectors. And over the years, while we have sold more volumes in automotive, its share has moved to around 15% of our total sales. This is set to rise with the commissioning of the CRM complex and incremental capacity at Kalinganagar. Similarly, the growth in long products will drive an increase in the high margin retail housing business for us.

Moving to Europe, Steel deliveries stood around 2 mn tons in the third quarter. Though the volumes were higher by 6% on QoQ basis, the sharp drop in realisations on subdued demand and elevated costs, including energy, have weighed on steel spreads. Looking ahead, uncertainty persists about supply-demand fundamentals, despite the recent pickup in the EU prices driven by hopes of a milder and shorter downcycle. Our steel realisations will remain subdued in the fourth quarter, given the lag effect of some of the contracts.

We continue to make progress on our sustainability journey to achieve net zero by 2045 via multiple pathways. We have already started initiatives such as charging more scrap into our furnaces. Our products like Tiscobuild Green construction blocks and Dhurvi' gold which has slag as one of the inputs help us achieve solid waste utilisation as well as address customer need for eco-friendly solutions.

Before I hand over to Koushik, I'm also happy to share that Tata Steel is the only company in India to be recognized by the World Economic Forum as a 'Global Diversity, Equity and Inclusion' lighthouse and we have also been awarded a Great Place to Work Certification for the sixth time in a row. Over to you Koushik.

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

Thank you, Naren. Good morning, good afternoon, and good evening to all those who have joined in. Let me give you a deeper sense of the financial performance.

Our consolidated revenues for the quarter stood at Rs. 57,084 crores, while EBITDA stood at Rs. 4,154 crores which translates to a margin of about 7%. The standalone EBITDA margin was higher at about 18%. Overall, the profitability was affected by a sharp drop in the realisations and spreads in Europe during the quarter. At Tata Steel standalone, the EBITDA stood at Rs. 5,334 crores, which translates to an EBITDA per ton of about Rs. 11,623. Excluding the forex impact, the EBITDA stood at about Rs. 4,763 crores and was up 15% QoQ. India steel prices remained subdued for most part of the quarter. The fall in prices of long product prices were higher than in flat products due to extended monsoon and the stoppage of construction in Delhi and the NCR region as per the ruling of the National Green Tribunal. However, the raw material prices were also lower as coking coal prices declined by around $82 per ton on consumption basis. Royalty related expense also declined by about 14% QoQ to Rs. 775 crores. Overall, the drop in costs more than offset the greater-than-expected decline in net realisation and that has led to margin expansion.

At Tata Steel Europe, the EBITDA loss stood at about £166 million. As Naren mentioned, deliveries were up 6% QoQ, but there was a sharp drop in realisation with revenue per ton being down by about £159 per ton. The sharp drop in realisations were in part, due to the higher spot sales and subdued demand given the macro conditions in Europe and high stock of inventories with customers. Costs were higher by about £31 per ton. While the coking coal consumption costs were down by about $95/t QoQ, there was an NRV loss of about £55 million on the slab stocks being carried due to the forthcoming relining at Tata Steel Netherlands. Energy costs remain broadly stable on QoQ basis. The currency markets have also been very volatile, and there has been sharp movement between USDINR and EURINR to name a few. This has led to an FX impact on the intercompany loans provided over time and this has resulted in a forex gain of Rs. 1,427 crores at the consolidated level.

Taxes for the quarter stood at about Rs. 2,905 crores and are fundamentally made of two parts, a) current tax in line with the profitability in India and b) the non-cash deferred tax charge primarily due to the reduction in the surplus in the British Steel Pension Scheme (BSPS) as part of de-risking. We made further progress during the quarter on de-risking the BSPS and expanded the insurance coverage from 30% to 60%. This buy-in transaction and the actual movement during the quarter have led to the reduction of surplus, but it continues to be material in surplus.

As mentioned in the previous quarter, the surplus reduction results in a reduction in the deferred tax liabilities in the OCI. But given the large amount of accumulated losses and the deferred tax assets in Tata Steel UK, we have to limit the movement by recording an offsetting deferred tax expense in the profit and loss account which is why you see a non-tax deferred charge in the profit and loss. Depending on market conditions, the residual insurance of about 40% liabilities will be completed in the first half of CY23, and there will be commensurate non-cash deferred tax expenses [inaudible].

Moving to cash flow, the operating cash flow for the quarter stood at about Rs. 5,000 crores versus Rs. 1,700 crores in the previous quarter and primarily was driven by favourable working capital movement. The working capital release was due to reduction in inventory value at Tata Steel UK and Tata Steel India on account of low commodity prices or lower inventory levels, but this was partly offset by increase in the slab stocks in Tata Steel Netherlands, as I mentioned earlier. As slab stock inventory gets consumed over the next two quarters, we expect working capital release at Tata Steel Netherlands over the relining period, which will be starting in April.

We continue to invest in growth in Kalinganagar and in NINL, taking our capital expenditure to about Rs. 3,632 crores for the quarter. The nine months capex has been about Rs. 9,746 crores, and we will be targeting to spend around Rs. 3,000 crores in 4Q to ensure that we accelerate the completion of Tata Steel Kalinganagar expansion project. Our net debt has remained broadly stable at about Rs. 71,706 crores, and the liquidity remains strong at over Rs. 15,000 crores. We are not able to deleverage in this particular year due to very high volatility in the earnings and working capital. Our focus is also on completing the Tata Steel Kalinganagar project. There was acquisition of NINL, which was about Rs. 10,000 crores and the best ever dividends that we paid over Rs. 6,000 crores. Even after this, our net debt to EBITDA is within the long-term target levels of about 2x. Our long-term target for deleveraging continues to be the same. We will continue to deleverage in FY24, and we will continue to ensure that our target of $1 billion is fulfilled and met during the next year and going forward.

Looking ahead, the next few quarters are likely to be weaker for TSE as markets continue to be subdued. Realisations for the fourth quarter are forecast to be weaker and the drop will be higher than the drop expected in the coal and iron ore prices. Furthermore, Tata Steel Netherlands is undertaking the blast furnace relining in 1QFY24. We are working on minimizing the impact of all of these aspects, including working capital and margins. Moreover, there are few asset specific challenges. Some of the heavy assets in Tata Steel UK are reaching the end of their useful life. Any long-term solution in the UK also has to address the rising cost of carbon and the local emission reduction goals. The UK government has provided us a framework of support for the proposed transition of Tata Steel UK to a low carbon configuration. [inaudible] consists of potential partial capital expenditure grant, policy on electricity pricing, and regulatory intent to ensure a level playing field for steel manufacturers. We are currently evaluating the offer of support. We are developing investment options, which will be most capital-efficient, economically viable, bankable, and value accretive. It will be reviewed internally over the next couple of months to determine the way forward. In the interim, we will continue to run Tata Steel UK optimally for cash with minimal support from Tata Steel India.

With that, I conclude my comments, and we open the floor for questions and answers. Thank you.

QUESTIONS AND ANSWERS

Operator

The first question is from Pinakin Parekh of JP Morgan.

Pinakin Parekh, *JP Morgan*

The company had effectively guided to a certain set of numbers for India operations and for the Europe operations. Clearly, the earnings are far weaker than that. But it seems that the profitability is lower than peers as well. Can you walk us through as to what happened in the India business? In particular, is the cost reduction lower than what we have seen in peers? And how will this trend over the coming quarters?

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

So, Pinakin, in terms of cost reduction, I don't know if you can be more specific. But generally, one area where we had a slightly different issue in India is we were ramping up Neelachal Ispat Nigam Limited (NINL). So, if you look at it on a consolidated basis, you had the NINL business, which was incurring costs but not yet earning much revenue. That will get settled during this quarter because the production is coming up to peak and we will be selling. But otherwise, I don't know of any specific area where our costs have trended differently.

Pinakin Parekh, *JP Morgan*

Sure. Given that in the December quarter, the coking coal cost benefit that was supposed to be there, the margin expansion could have been higher than what we have seen. So, just trying to understand was there any [inaudible] of contract sales volume issue or whether other than coking coal costs, some of the other expenditure did end up being higher than what was earlier thought in November.

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

No. When we had met in November, I think the guidance on the realisations were not as pessimistic as it turned out to be. If you really look at it, as we went into that quarter, we thought the prices would have reached its bottom and will start moving up or if not move up, will stay stable. But the realisations in 3Q in India have been about Rs. 2,000 less than 2Q. So, the margin expansion in 3Q was largely supposed to come from the drop in coal consumption cost. The coal consumption cost was lower by $90/t, which is what we have guided in November. But in terms of what we had expected, we didn't expect the prices to drop as much as it did. And by the time it did, it was already towards the end of December. And secondly, we were also hoping to get relief on export duty earlier than when it came. It came only in the middle of November, whereas we have been hoping that it would have come earlier because the steel prices in the domestic markets were still quite low. We had a pretty good quarter as far as production is concerned. And I think at least in India, we didn't have issues.

Pinakin Parekh, *JP Morgan*

Sure. Fair enough. My second question is just going back to NINL, you said that it has been ramping up during this quarter. Now if you look at the medium term ROIC target of 15% on Rs. 12,000 crore investment, it effectively implies a steady state through-cycle EBITDA of Rs. 2,000 crores from that acquisition. So, when can we see that kind of earnings come through from NINL, because clearly, at this point of time, it is a material drag on consolidated earnings?

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

Basically, in NINL we were EBITDA negative in the last quarter and that changes obviously because one is we are today producing at least 50,000 - 60,000 tons a month and we hope to take it to 80,000 tons a month of steel. I'm not talking of hot metal. For hot metal, the blast furnace is already at 80,000 - 90,000 tons a month So, the billet production is there and they're selling the end product as Tata Tiscon. So, next year, for instance, you will see 1 mn tons of production out of NINL.

So, the return on investment on NINL was also based on the expansion of Neelachal beyond the 1 mn tons, we said the Rs. 12,000 crore valuation was not for a 1 mn ton capacity, but both for the opportunity for us to increase the size, because if you look at 1 mn ton capacity, we would have been closer to what we paid for Usha Martin or something like that. What we paid extra was for the iron ore, which is coming at premium, and we've paid for the land, which is 2,500 acres of land. That's what we've paid the premium for. So, to monetize that, we obviously need to expand Neelachal to about 4 – 5 mn tons at least, which we will do. We'll go to our Board once we ramp up to 1 mn tons. We are waiting for the 1 mn tons operating rate to be reached before we go and invest capital for expansion in NINL.

Operator

The next question from Amit Dixit of ICICI Securities.

Amit Dixit, *ICICI Securities*

I have 2 questions. The first 1 is essentially on the non-cash deferred tax payment or provision in the consolidated numbers. Is it possible that theoretically if there is profit in Tata Steel Europe, then this can be offset at a later date? So theoretically, we can get a lower tax rate? Or is it that the profits must be in Tata Steel UK for the offset there to take place?

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

Yes, Amit, the offset must be in the entity, which is carrying this, which is Tata Steel UK.

Amit Dixit, ***ICICI Securities***

The second question relates to the spreads in TSE. Now while in the prepared remarks you have mentioned that the drop in realisation would be higher than the benefits of coking coal and / or iron ore escalation. Now will there be any NRV provisions in this quarter as well given that prices have moved up in Europe. £55 million was recorded in last quarter, will there be something in this quarter also? And will we have more EBITDA compression, or will we end up with a number lower than what we have in this quarter on per ton basis.

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

So, I think to answer that question, first is, we've kind of taken all the NRV that we could estimate. As you know, the NRV is point to point, from the end of the last quarter. So, we had stocked up slabs in the Netherlands in anticipation of the blast furnace relining. And as the blast furnace relining will take about 120 days, you must have enough stock to do the business and service customers.

So, this stock has been accumulated over the last 6 months. At that point of time, the coal prices were north of $450/t and iron ore prices were also high, which is why this NRV testing happened, and the write-down of the NRV mark-to-market is what we have taken in this quarter. If the prices don't fall very sharply or significantly from here, I don't see any material NRVs. I can't rule out small changes in NRVs, but nothing material in that nature. In UK and Netherlands, we don't want to run flat out for cash. And therefore, if that's the case, then we are also targeting significant stock level reductions, as far as is practical to run the business. And therefore, end March inventory number should look much lower, hence the risk of the NRV comes down.

Amit Dixit, ***ICICI Securities***

Great. One associated question that the annual contracts that are going to be negotiated maybe from CY23, the expectation is that they would be negotiated at a significantly lower level, given that what we saw in CY22. And the quarterly contract that possibly [inaudible] will enter in March. would again be at a significantly lower level because at that time Russia/Ukraine war was there. So, do you expect that contracts, monthly contracts or quarterly contracts will be negotiated lower and therefore, we can have overhang of lower realisation extending right into the first six months, let's say in FY24.

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

So, Amit, let me put it this way. The annual contracts that we had for last year, most of them were in excess of €1,000 per ton. So, this year, while the annual contracts are at a lower level, depending on which sector, which industry by €100 to €150 or maximum of €200 per ton, but they're still higher than the spot prices. That's one point I wanted to make. Secondly, the spot prices are going up now. If you've seen in Europe, it's gone up by about €50 per ton. If you look at last quarter and this is an extension of Koushik's answer, the cost of 3Q is higher than the cost of 2Q because of these NRV provisions. So, despite the coal being $90 per ton cheaper and iron ore being $20 per ton cheaper, our cost was £31 per ton higher in 3Q compared to 2Q only because of this NRV provision.

When you look at 4Q, we expect that the realisations in Europe will be about £70 per ton lower than 3Q but expect cost to be at least £100 per ton lower on QoQ basis. So, we see a margin expansion per ton this quarter. Of course, we are still looking at gas prices and many other moving parts just now, but at least from a margin per ton or EBITDA per ton point of view, hopefully, the worst is behind us as far as 3Q is concerned. Now going forward, the stocks that Koushik said, basically, we had to build up about 700 kt stock. That will start getting converted into cash. While the blast furnace will be down, the sales will not be down to the extent of what production is down, and that's what these slab stocks are going to do. Since NRV correction has been done for the slab stocks, if the spot prices and the steel prices keep going up, we shouldn't have a problem.

Operator

The next question is from Indrajit Agarwal of CLSA.

Indrajit Agarwal, *CLSA*

I have 2 questions. First, if you can give us some indication as to what the relining capex would be and how long the shutdown be? And in view of that, what is our cash fixed cost per ton in Europe? So, at what EBITDA levels will it not need support from India? That is my first question.

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

So, I think, the blast furnace shutdown is planned for about 120 days. Regarding cash, [inaudible], but it's a question of also ordering has also been done over the last one year. So, some part of the cash has already been spent, and there will be some spend obviously as the relining happens over the period and it is in the ballpark of about €250 million to €275 million, and some of it has already been spent and some will be spent. And I think if I can put it the reverse way, Tata Steel Netherlands is actually sitting on €600 million of cash, so they don't require any money from India.

Indrajit Agarwal, *CLSA*

And UK still needs the cash infusion

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

So that's why I said that in my comments that we would look at running it for cash. And we will minimize as much as we can [inaudible]. And including in this quarter, there is almost about Rs. 1,000 crores of working capital release. So, we will continue to push that very hard.

Indrajit Agarwal, *CLSA*

My second question is on coking coal. While we understand your fourth quarter guidance, but given the news flows around the Australia China trade opening up, how do you see coking coal prices trending on 6 to 9-month basis from here?

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

So, I think coking coal is obviously not as liquid a market as one would like it to be and hence is very vulnerable to be fluctuations. We see coking coal prices between $250 and $350 per ton. Unless there are events like the Russia – Ukraine crisis, it will fluctuate in that range. There would be some weather event in Australia for which it may spike up or something else. But we are not seeing coking coal prices drop much below $250 per ton in the short term or medium term because, honestly, there are not so many investments being made in coking coal because generally coal has seen a bad basket to invest in. So, this is where the challenge is. But I think this is the range that we can see coking coal prices. Today, it's gone up close to $350 per ton. Your question on China buying coking coal, well, I think one thing which China has done well as they managed for the last few years without buying Australian coking coal. So, they managed to get the quality they want it out of the facilities that they have. They've also been buying out of Russia. So, I'm not sure it will make such a material difference as it would have done three, four years ago because they have developed alternate sources over last few years.

Operator

The next question is from Satyadeep Jain of Ambit Capital.

Satyadeep Jain, *Ambit Capital:*

Thank you. A couple of questions on Europe. First on the profitability, I believe a couple of years ago, the company was embarking on a transformation program and that time we thought that at spreads of about €240/t, the company was looking at cash breakeven. Given the current spreads area also about €200/t which are not too far from those levels, the company should have possibly been at least EBITDA breakeven. Is there something maybe on the UK plants reaching end of life or is there anything else going on that is leading to the deviation from the targeted transformation plan savings. That's the first question.

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

Yeah. So Satyadeep, I think two things. One is, of course, our traditional view of spreads now needs to get corrected for energy costs and gas costs. Because traditionally, energy and gas were hardly less than 10% of the raw material costs, whereas it went up last year to almost 40%. So, it played a very material role. Now it is coming back to around 10% to 20%. It's at a more reasonable level. So that is one thing that's why what we have traditionally seen is €225 and €250/t spreads. So that's one change. Second point is, if you really split UK and Netherlands, Netherlands business has traditionally been EBITDA positive, cash positive, for sure, every year and pretty much all quarters. Only last quarter was one of those quarters where it was EBITDA negative, but largely because of the NRV provisions that we had to make on the slab stock, which in itself was unusual situation as a build up to the [inaudible] summer shutdown.

UK is where we have a challenge because energy costs have always been higher and have become even higher. We have some challenges on end of life. So, what happens in the end-of-life situation is the production levels are also not as stable as we would like it to be, and that leads to unplanned outages. So that's something that we are dealing with. So, a lot of the underperformance has been in UK for the last quarter. Netherlands also has not had as good a quarter as they would normally have. So, we expect in Netherlands, at least, operationally, this quarter was fine, but next quarter, we have this blast furnace relining after that things should come back to a stable state in Netherlands. The UK situation is slightly different. Cost situation is improving in both these places because industry prices have come back close to pre-Russia Ukraine [inaudible] levels. So that's the way we see it. I think Netherlands should continue to be cash positive and EBITDA positive and should not need support from India. UK is what as Koushik said, we will take a call going forward.

You should also keep in mind that Europe is today in a high inflation environment. So, the inflation is much higher than what we had thought two, three years back, and that also has an impact on cost. So, even if we have taken out a lot of costs, some of the costs because of the inflationary pressures have gone up more than we had planned three years back.

Satyadeep Jain, *Ambit Capital:*

The second question is on capex. The $250 million to $275 million for relining, I think I was under impression that this is going to be partial relining given the eventual transition to DRI sometime in the future. For a partial reline it seems somewhat high. And secondly, on the media reports indicate possibly a $1 billion requirement for conversion for UK. If I understand it correctly, the idea is to convert it to a standalone EAF, given the scrap supplies there. The capex required for this should be, I believe much lower than those media headlines. Is there a thought behind maybe not just looking at a standalone EAF or possibly exploring other options there?

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

On the relining, it depends on if you're comparing to a relining cost in India, obviously, $275 million looks high. But if you compared to what relining cost is in Europe, it is comparable. Having said that, this blast furnace is expected to run at least till 2035, even in our transition plan. So that's why this is being relined for that kind of life. The blast furnace, which will go down first will be the blast furnace, which is coming up for relining in 2026 or 2027. So, we have two blast furnaces in Netherlands. So, this is being planned to be run until 2035, even in a transition plan.

As far as UK is concerned, the media reports on the numbers are speculative. So, I don't want to comment on that. But having said that, the proposal to the government was not just about an EAF, but it was also about the hot strip mill, which is also coming to end of life and some of the other assets, which were important to keep the site sustainable. So that's why the amount [inaudible] what we would spend typically on an EAF. But given what we've got from the government, we are looking at what then would be the next best thing. What is the best that we can do with that kind of money that may be available to us and the policy support that we will get from the government! So, I think this is what we are working out based on the recent inputs that we had from the government.

Operator

The next question is from Ritesh Shah of Investec.

Ritesh Shah, *Investec*

A couple of questions sir, first is, can you broadly give us some colour on the assets that we have in Europe. I think in the prior question, you indicated that there are two furnaces in the Netherlands. One, that is due for relining and will be till 2035, and the other blast furnace, it has a relining due by 2026. Is that right?

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

Yes. That's right. 2026 – 2027 around that time

Ritesh Shah, *Investec*

Sir, how should we understand the same aspect for the UK operations, wherein you indicate there are many assets reaching end of useful life. And if you could please put in perspective what you indicated that the framework that you are engaging with the UK government on practical grant for creating a level playing field. I don't know whether it refers to CBAM or something else. If you could marry both those verticals together, it would be great, sir.

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

Sure. So, in UK., if you look at, so one of the blast furnaces in the UK got relined about 5 – 6 years back, okay, or maybe 10 years back in 2012. So, typically, once a blast furnace is relined, it will run for anything from 15 years to 20 years. So, there is one blast furnace, which can go on for slightly longer. There are many parts in the UK business, where the assets are a bit old and need support. And that's where our proposal to the government was to say that instead of spending capital on assets, which anyway don't have a very long-term future, why don't we use that opportunity to transition into a greener process, particularly given that the UK has a lot of scrap, which it is exporting. But the challenge there was the energy cost in the UK even before Ukraine was twice the energy costs in Europe.

So, our ask of the government was at least 50% of the capex that we need to spend should be supported and there should be policy support on energy cost so that we are not disadvantaged compared to Europe. And thirdly, of course, the policy support that the European steel companies are getting in terms of Carbon Border Adjustment Mechanism. The ask in general in Europe by steel companies of governments is typically on these principles that at least 50% of the capex that is required to be supported as grants because the industry - through its cash flows cannot justify spending out the capex that it needs for this transition. And secondly, Opex support because when you transition from coal to gas and hydrogen, your input costs are less dependent on steel prices. When you're looking at metallurgical coal, there's a correlation between the metallurgical coal price and the steel price. But when you're starting to use gas and hydrogen, the correlation is not there because gas and hydrogen are used for other applications as well. So, the ask of the government is to also say that how do you protect the industry, if it's changing from one consumable to another, which is move vulnerable to other industries. The third point, of course, in Europe is about Carbon Border Adjustment Mechanism. So, the last point is that we are also saying that there should be a level playing field, not only in terms of Carbon Border Adjustment Mechanism. But if there are some countries in Europe supporting their steel industry with let's say 50% of capex, then the other countries also need to consider that because otherwise, at the end of the transition, some of the steel companies in Europe will be disadvantaged compared to somebody else who's got more support from the government. So that has also been asked on the principle of support, and this is what has actually been discussed by us and our peers to the multiple governments in the countries that we operate in.

Ritesh Shah, *Investec*

Sir, if I had to conclude on that point, what is the aspirational ROIC? In the presentation, we indicate 15%. So, for standalone, whatever we do for UK operations, even factoring 50% hypothetically the government does contribute to the capex. What is the ROIC that we are looking at a corresponding cost of capital? Just trying to make sense of the incremental return.

Koushik Chatterjee: ED & CFO – Tata Steel Limited

So, on that Ritesh, it's more linked to the cost of capital. So, what works for in India, for example, our WACC hurdles are more than 12%. But in Europe, it will be around 9 - 10%. That's the IRR hurdle for approval of capex. But the ROIC that we are looking for is always at about 15%.

Ritesh Shah, *Investec*

Sure. That's very useful. And I had a couple of questions for India operations. First is, do we see leeway to increase local steel prices from an import parity mark standpoint. Second is volume guidance, if it's possible for FY25 basis, given I think the street will start to look at the company on FY25 basis. And third is basically iron ore merchant sales, is there an optionality that the company has over here, if at all, if you could detail any plans on this aspect. Thank you so much.

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

So, I think steel prices in India are also reflecting the trends in international prices. If you look at prices in Southeast Asia, they got up $100/t in the last four weeks, and steel prices in India, we expect it to go up by that amount over January, February and certainly by March. So that's something which is mirroring what's happening in the international markets. The demand in India has been strong. There was in between a few shipments of imports which came from Russia etc. but

I don't see import as a big threat just yet. Japan [inaudible] exporting a lot because the yen has gone to 145 and the yen has also strengthened. So, I think we are in a much better situation today as far as import prices concern than we were two, three months back. And I also think, in any case, the steel prices in India, we need to find a better balance than we've seen in the last three, four months. I think that's reflected in the financials of the steel companies over the last two quarters. right? And particularly, if the industry needs to invest for growth, we need better cash flows than we've got in the last two quarters. So that's as far as steel prices are concerned.

Samita Shah: *VP CFTRM – Tata Steel Limited*

I think there was a question on volumes. So, Ritesh, as you know, we don't give annual volumes guidance at this time. We will do that once we finalize our annual plan. So maybe we can just walk him through in broad sense what we expect.

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

So, in terms of volumes next year you will see Neelachal Ispat Nigam Limited at 1 million ton. We've not seen much of Neelachal this year because we started the plant within three months of acquiring it, but pretty much the steelmaking started in November. And we have today… in fact, yesterday was the highest ever production that Neelachal has ever had. We produced 3,200 tons of steel yesterday in Neelachal. So that means the going rate is already at the capacity. So that is the incremental volume, which will come next year. We will also getting some incremental volume out of the Kalinganagar. We have a new caster coming that should be up. Kalinganagar today is actually producing at over 300,000 tons a month, which is like 3.6 mn ton rate. So, we'll get some additional volumes from the caster. We'll give guidance when we do the annual results. There is some debottlenecking which will also get us some volumes. But how much more, we will guide you in the next call. In two years, we will have the Ludhiana plant also up, which is 0.75 million tons and by this time the Kalinganagar blast furnace should have also started.

Operator

The next question is from Kirtan Mehta of BoB Capital.

Kirtan Mehta, *BoB Capital*

Just to continue the previous question, you've given some colour on FY24 numbers and to get more on FY25, which is likely to be the valuation base for the street - could you walk us through the ramp-up sequence of Kalinganagar expansion post expansion? How long would it take to ramp up to full capacity?

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

So next year, what you will see is, firstly, the pellet plant would have ramped up by the end of the first quarter, which means we don't need to buy pellets, which means cost savings for Tata Steel. Secondly, the cold rolling mill, not the galvanizing line, but the cold rolling mill will be ready. So, we will have what we call full hot CR (FHCR), which can be sold. So basically, the hot-rolled coil gets converted into cold roll. So, there's no incremental volume, but there's incremental value which comes from that. Like I said, if we have the new caster in by the middle of next year, we will get some additional volumes from steel mill because today we make more hot metal than the steel mill shops can consume. So, these are the areas where you will see the ramp-up.

The blast furnace of Kalinganagar should come up only in FY25, and that's where you will see the ramp up. Typically blast furnaces ramp up fast unless you have a problem. The hot strip mill and the steel mill shops would also be ready. And once you have the blast furnace making hot metal, ramping up the steel melt shop, and the hot strip mill is not an issue. If you remember the Kalinganagar Phase 1 ramp-up was one of the fastest for any greenfield site. I think we did it in about 16 months, the full ramp-up. So that's typically what it would take. We should keep in mind that it's going to be one of the biggest blast furnaces in India. So, we will obviously ramp up keeping the complexity of large furnaces in mind.

Kirtan Mehta, *BoB Capital*

Thanks for these details. One more question from my side. If you look at the Tata Steel and its subsidiaries, there is spread which is opened up to around 12% to 15%, if we take the conversion ratios into account. So, in fact, if we look at it from this perspective, it would be that market is pricing between 1 to 1.5 years for the merger to conclude. Do you think that's a fair estimate by the market? Or do you see the merger progressing a bit faster than that?

Koushik Chatterjee: ED & CFO – Tata Steel Limited

So, Kirtan, I think we are at a stage where we have done the filing with SEBI and regulators, and we will be looking at getting their clearances. And since some of them are listed companies, I think a year is the honorary course of business of the NCLT, we should be able to do that. I don't see it in 1.5 years. In Bhushan, we got delayed because of multiple reasons, but these are our subsidiaries for long. So, we are hoping that we can close it before one year.

Operator

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

Samita Shah: *VP CFTRM – Tata Steel Limited*

Thank you, Kinshuk. I'll start with the questions on India. We have a question on auto. We had said that auto sector is 15% of our volumes. What would be the growth trajectory going forward for the company on an average? And what is our targeted mix from the auto sector for FY24?

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

So, obviously, our growth in auto will depend largely on the pace at which automotive segment grows because we already having 50% market share and normally auto companies like to buy from at least two suppliers, if not more. So, we are not looking at a much higher market share than we have today. So, our growth in volumes will largely depend on the growth of market sector. Having said that, once the cold rolling mill with its galvanizing line and the annealing line comes in full, what is coming up just now is what we call the PLTCM, which is basically the cold rolling mill. But the annealing and galvanizing facilities will be commissioned over the next 12 to 14 months. Once that comes in, then you will have a lot more to add to the product mix. So, while we have a very high market share, let's say, in hot rolled coils, which is over 55% - 60% in some cases, in auto, in cold rolled and galvanize we have in the 30% to 40% range.

So, there is a room for us to increase our market share in the galvanized, high end galvanized and cold roll anneal products, which we will do over the next three to four years. But overall, if you look at it, auto will always account for 15% to 20% of our overall volume. The other sector, which is quality conscious and which we are pursuing in a big way is Oil and gas. And I think the Kalinganagar plant is ideally suited for the Oil and gas segment, and we are making a lot of headway there. So, we expect that also to account for a big chunk of our value-added sales going forward.

Samita Shah: *VP CFTRM – Tata Steel Limited*

There is a question on iron ore merchant sales. Why do we not do some merchant sales as optionality is available?

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

That optionality is available with the requisite permissions that we need to take, which we've taken. We are doing some iron ore sales, but largely our iron ore is meant for captive use because what we are producing, we are consuming. Once the pellet plant starts, we will be using more iron ore for the pellets because we don't have to then buy pellets. But having said that, whenever there is an opportunity to auction iron ore that we can't use because of the grades or whatever, then we will do that. I think one of the challenges today is not so much about auctioning it, but about the logistics of it. And I think we have done quite a few rakes of iron ore in the last two, three months. Not yet so material, but yes, it has started.

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

There is then a question on RINL investment. Given our deleveraging target for year 2024 and ahead. Can we confirm that we are not going to bid for these assets?

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

So, I think what we've always said is our existing sites allow us the run rate to grow to 40 mn tons, right? So, I think our growth ambitions can be fulfilled from our existing sites. But it will be premature for us to emphatically say yes or no because there's a competitive environment and why should we announce what we want to do or going to… ahead of when you need to do it.

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

And there's another question on India, which says can you assume Rs. 16,000 EBITDA/t for 4Q. So, as you all know, we don't give a quarterly guidance. So, we will not comment on that. Just moving to Europe, there's a question about if we expect steel prices in Europe to benefit if CBAM proposal are implemented?

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

Yes, certainly, because we should keep in mind that in Europe today, we pay €80 per ton for CO_2. I mean, obviously, we get free allowances. So even, despite that, I think we paid something like €100 million a year. So, because the free allowances we get are not covering our needs fully. So that's a cost. We are paying and everyone else in Europe is paying today. And as those free allowances go down, you will pay more. So that's why there is a CBAM because if somebody can make steel, which is more carbon inefficient and ship to Europe without the cost, that's very unfair on the European steel industry. If you look at Tata Steel in Netherlands, it is the second most carbon-efficient blast furnace in the world. It emits about 1.8 tons of carbon per ton of steel. So, for blast furnace emitting that kind of carbon to pay €80 per ton, carbon cost and somebody who is, let's say, 2.5, not paying that cost is certainly unfair. So, we expect that CBAM will come in. We expect that steel prices in Europe will reflect the cost in Europe because some of those costs are unique to Europe and the industry will need that support.

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

And there is a question around the energy costs, so given that the spreads have been, our margins have been affected by coal and gas costs - could the company please report that line separately under expenses for both Europe and India?

I would just say all of you know that we give a lot more information than any other steel company in the world actually any company in terms of the profit and loss details

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

It will get covered in the MD&A when you look at the annual numbers.

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

The next question is comment I think, are we regretting not considering divesting our international business when the situation was favourable? Will we revisit this in the next up cycle?

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

It is a hypothetical question

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

I think there is a question around debt reduction, do you expect debt reduction in 4QFY23?

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

So, we've, in this third quarter itself, paid about Rs. 1,300 crores, but it got offset by the currency valuation. So, in principle that I can articulate as a company is, we will look for all opportunities to reduce our debt. As I said in my comments that completion of Kalinganagar is a priority, but deleveraging is also a very important priority. And therefore, whenever we get opportunity, we'll do so. We do have some scheduled repayments ahead in 2024 coming up and there will be natural deleveraging itself. And then whatever we get from a surplus cash generation, we would look to prepay our leverage.

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

There is a question on profitability in Europe for 4Q, says your commentary suggested that EBITDA/t will further weaken over third quarter, can you please clarify?

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

No, I think we said it will improve compared to third quarter because while the current estimate is the realisations on an average for Europe will be £70 per ton lower in 4Q compared to 3Q, but the cost will be about £102 per ton lower, but we are watching all the costs very closely, including gas prices, energy costs which have dropped significantly over the last few weeks.

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

The next question is on UK. What is way forward on UK given the package is inadequate? When can we see some concrete steps that you will take?

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

As I mentioned in my comments that we are looking at an optimal model, which is investable, bankable and fix the need of the company. This is not a excel model analysis, it's an engineering analysis and it's a technical analysis, which is ongoing. [inaudible] as Naren mentioned, the broader configuration given the current offer of the development, we are going to look at it. We've already started looking at it, and we will come back to our Board and take guidance on that. So, it will take a little bit of time, but not indefinitely

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

What is the kind of annual contract negotiation in Europe, can you give us a sense of how different it is?

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

Compared to last year? So, like I said, depending on the industry it's, I think, in the range of €50 to €150 to €200/t, lower than last year's annual contract prices. But most of last year's annual contract prices were higher than €1,000 per ton. So, I think it's in the €850 to €1,000 range is what we see most of the contracts for this year, which is lower than last year, but higher than today's spot prices.

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

The next question is on Europe in terms of the investigations around the environmental issues, can you please give us an update?

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

Yeah. So, I think largely, it is to do with our operations in Netherlands. Obviously, we're responding to the various notices that we get etc. There are issues related to the coke plant there and the emissions out of the coke plant and a few other instances of the past. What we have done over the last few years is one is, of course, we have a roadmap to continue to improve the situation. Having said that, I must also say, like I said before, that our Dutch plant is certainly one of the cleaner steel plants in the world, but we are conscious about the feedback from the community and from the regulators and constantly trying to improve the facilities that we have there. So that work goes on. There are obviously investigations going on. There are questions being asked, which we are responding to. We are cooperating with authorities and doing the best that we can. But having said that, I think we are a responsible corporate, and we will do whatever is the right thing to do.

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

And one question before we go back to audio is on the forex gain this quarter. It's quite a large amount, can you please explain this and provide some details.

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

So, this is something which happens every quarter. There are gains and there are losses. So, there is a Tata Steel investment in Tata Steel Holding, which is the holding company in Singapore, and it is done through a debt mechanism. So, whenever there is an FX movement every quarter, it is adjusted. Sometimes it is negative, sometimes it's positive. And this quarter, as I mentioned, EURUSD and USDINR movements have been quite volatile and resulted in an FX gain, that's been accounted for in others.

Operator

The next question is from Tarang Agarwal of Oldbridge Capital.

Tarang Agarwal, ***Oldbridge Capital:***

Hi. Three questions from me. Two on Europe and one on India. On Europe, given that your current contracts have been priced at anywhere south of €1,000 per ton. But if I look at the total cost, even if I eliminate the NRV of £55 million, the total cost at least for the last four, five quarters has been trending north of €1,000 per ton. So, is there something that I'm missing here or from the point of view of how it's going to play out on per ton basis?

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

The only thing I can think of is we have a lot of downstream assets in Europe. So, I don't know if there's any conclusion on those costs versus those realisations

Tarang Agarwal, ***Oldbridge Capital:***

Second, how fungible is the cash between Netherlands and UK?

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

So, in the past, when we used to run Tata Steel Europe, we used it in a very fungible manner. Given the fact that Tata Steel Netherlands has a decarbonization project, we are escrowing and ensuring that we have that capital because that will be a very material investment that has to be done in TSN. But otherwise, cash moves freely across all entities.

Tarang Agarwal, ***Oldbridge Capital:***

Okay. And my third question that's on the India business. Between BPR, Downstream, IPP and Automotive, if you could give us a flavour in terms of how the realisations are different.

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

So, in terms of realisations, automotive contracts, the tenures are different for these contracts, right? So, if you look at it, the automotive contracts are typically three months to six months depending on the customers. So, if you have a rising market, the auto contracts look less attractive because the spot prices have gone up above the auto contracts. In a falling market, the auto prices will look better. So that always happens, particularly when there's a lot of volatility. But fundamentally, the reason why we pursue auto customers is that they are not price buyers. They look for buying from suppliers who are approved. So that means your competition is limited to whoever has the approval for supplies. And that's why segments like automotive, oil and gas are attractive because you're not reacting to spot prices moving up and down.

IPP is where the volumes go because you have many large customers, maybe tubes, earlier cold rollers, now there are not too many cold rollers who buy hot roll coils. They are all integrated. But these are a volume play, plus you have a value-added play in that. Downstream business for Tata Steel is very big. There our policy is more on transfer pricing, which is based on an arm’s length basis, but there is obviously a lag. So, if you look at some of the price increases that we take this quarter, by the time it passes on to our tubes division or the tinplate company on our transfer pricing policies, it may be a month or two into the quarter or at the end of the quarter. So, there is a lag between that. But again, we see downstream like auto gives us stability in the business. IPP is more the one which you will leverage, when the stable businesses are picking up less volumes than we would like to sell them. To answer your question, I would say, on a long-term basis, auto and downstream should rank over IPP.

Operator

The next question is from Sumangal Nevatia of Kotak Securities

Sumangal Nevatia, ***Kotak Securities:***

First question is just some clarification on the UK topic. The entire transformation from BF to EAF, what is the estimated capex you're looking at? And what is the plan to fund the remaining 50%, assuming we get a 50% grant from the government?

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

So, I think if you have heard Naren a little while back, our original ask was for a configuration which had an EAF and also the downstream TSC or thin slab caster, and the rolling mill. So that all was the configuration that we were discussing with the government. And we said for that, we need to get 50% support. I think what the government has given is partial of what our ask was. And therefore, we are relooking at what should be the resizing of the configuration, if to make it investable and bankable and value creative. So, I think these three are the foundations of what we are looking at. And I don't think what we had asked for has happened, and therefore, the original configuration is to be rethought.

Sumangal Nevatia, ***Kotak Securities:***

Understood. Is it possible to get what is the ask in terms of billion dollars?

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

No. So at that point of time, it was multiples of the 300, which we had got. But I think, let us not look at that because it's no longer relevant. What is relevant is what we will now work on and are working on, and which matches up to the partial grant that the government is willing to give and then go back to the government and saying that this is what we can do at best.

Sumangal Nevatia, ***Kotak Securities:***

Okay. Got it. But given that the UK doesn't earn any free cash flow, how will the remaining part be funded? Will they raise debt? Or will there be some support from India entity.

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

No. So that's why I'm saying that when you do the capital allocation, when we see, for example, say that this year's capital expenditure is say, Rs. 12,000 crores, Rs. 13,000 crores etc. We take every entity into account, it's not India alone. So, I think this is going to be almost like a new investment. It's not putting money into the current asset. So, this will be as I said, [inaudible]. It will have elements of Tata Steel support. Something if the existing business can give or cannot give, then it will be externally funded. So, it will be a combination, but I don't know yet what that configuration will be, let's work towards it, and then we will certainly come out and talk about it.

Sumangal Nevatia, ***Kotak Securities:***

Got it. That's very clear. And I mean, just hypothetically, if it's possible to discuss what could be plan B here? I mean, we've been in discussions with the government since more than two years now. Is there a fixed timeline we are looking to close this? And what is plan B - divestment or shutting down the plant?

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

So, there is a plan B, there a plan C. But I think unless we cross the hurdle on the planning, now that the government has given us a formal proposal or a formal support structure. Let's work on this and see whether we get to that. Otherwise, there are consequent plan Bs and plan Cs that we can go for.

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

And I think, to be honest, whatever we do, we also need to discuss with the other stakeholders there, the unions and everybody else. So, it only it would be fair for us to internally discuss before we announce whatever we want to do.

Operator

The next question is from Anupam Gupta of IIFL

Anupam Gupta, ***IIFL***

What is the outlook for net steel realisations and coal consumption cost for India operations for the fourth quarter***?***

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

Yeah. So, the net realisation for this quarter in India, we were expecting it to be about Rs. 1,400 - 1,500/t higher than last quarter. I say this because while from December, the prices have been going up. I'm looking at average of last quarter. In terms of coal, the coal costs are expected to be about $10 per ton lower this quarter compared to last quarter. The other point I want to make is this quarter between Europe and India, we'll also have about 0.5 mn tons of additional volumes compared to last quarter.

Anupam Gupta, ***IIFL***

Okay. And just one more question. So, we understand that profitability in UK will improve in this quarter versus last quarter, what you highlighted. But let's say, over the next one year before your any transformation capex happens, do you think it can go back to, let's say, a cash neutral situation or you will continue to have some support coming from India or, let's say, local level debt coming in Tata Steel Europe?

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

No, so I think we didn't say it would improve. I think what Naren's comment was it will not worsen is the point. And as I mentioned earlier also that we're coming to the end of life of some of the critical facilities, which will mean that there will be challenges on costs, and we are trying to run it in a most optimal manner, which will require minimal support from India. That is what our target is, till we come to a decision, which is relating to what we have discussed fairly at length in this call and how do we look at the future as far as UK is concerned.

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

Clarifying Koushik's point, I said we will improve, but we will not be out of the woods.

Operator

The next question is from Sumangal Nevatia of Kotak Securities

Sumangal Nevatia, ***Kotak Securities:***

Sorry. So, just one pending question. I mean, when do we expect the commercial volumes from KPO phase 2, is it first half of 2025 or more like second half of FY25?

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

Firstly, from next year, you will have the FHCR, which is also part of the commercial volumes of KPO. But we should keep in mind that this is value-added to existing hot roll coils. It's not incremental volume, let me put it that way. Incremental volume will come from the next from FY25. I mean, some of the incremental volume will also come from the second half of this year, simply because we'll have an additional caster in the steel melt shop. We are still working out the volumes that will come out of it, and we will give you that guidance in the next analyst call. But so, starting from this year, but most of it will start coming from FY25, where first half or second half, I think we'll give you guidance when we talk the next time.

Sumangal Nevatia, ***Kotak Securities:***

Got it. And just one last question. In Europe in the past, you said that $50 - $60 per ton at the entire Europe level is cash breakeven considering the capex, maintenance capex and interest obligations. I mean, when do we see reaching to that level? Is it more towards the end of FY24 or more like an FY25 as we see today?

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

When you say Europe, I think Netherlands is what we just mentioned. As far as UK is concerned, the levels are somewhat a little higher than that.

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

So, Netherlands has always been EBITDA positive, cash positive. So, I think last quarter was an exception of being EBITDA negative. But I think on an annual basis, even last year and next year, it will be positive EBITDA for sure

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

Post relining, it will come back.

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

Yeah. So, Netherlands is not the challenge. The challenge is obviously in the UK

Operator

The next question is from Prashant Kota of Emkay Global

Prashant Kota, ***Emkay Global:***

Sir, my question is more on the coking coal side and the structural issue over this. Sir, you are being used to buying this coking coal at very high prices. And in fact, sorry for that word but arm-twisting or extend by the other side. Sir, if you take a step back and just look at it from an outsider. Sir, this is opposed to being a mutual long-term relationship in which both parties need each other. But here it is one-sided and, I believe the 90% of the volumes are sold on a linked to the index, where the index is decided by 10% of the spot. So, this is, it seems to be some sort of anomaly. Sir, what can we do to take a step back and say collectively be as in Tata Steel as a leader, not only in India, also in Asia because there are also poor regions that currently take a step back and say, okay, we need coal, coal guys need us and there is coal -- bit after making some profit on the same? So, can we have a new dialogue or new system of pricing this as an, okay, we can pay you this much based on what we have made in the last quarter, last couple of quarters. And something like that the way we have negotiated with auto guys. So, what is the thinking on this.

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

So, I think it's obviously in any commercial free markets, the power will shift from the customer to the supplier or supplier to the customer, right? So, when steel prices go up, we get a lot of noise from our customers saying that it shouldn't go up. I think, in some sense, if you look at the coal companies, they will tell you the same thing. The issue is that coking coal is not a very liquid market, unlike thermal coal, it's a very consolidated market. What is also happening is you have the big miners, and you are the smaller miners. The smaller miners are not getting the funds that they used to get earlier, the financing or the insurance that they used to get earlier because coal in general is seen a bad word without drawing a distinction between thermal coal and coking coal. You can theoretically do, without thermal coal; you can't do without coking coal for at least the next 30 years, right? So, there is the situation. For India, we are very dependent on Australia as a source. We are vulnerable to weather or climate events, and that makes the liquidity even worse or two years back, we had a problem in the railways there. So, these events happen, which [inaudible] the coking coal prices. The part that you, point you made about the indexes is a point where the steel industry globally has taken up both in Europe and in India saying that the index or most of our contracts are indexed, and that index we believe is not truly reflective of all the transactions in the market. This is something which is being discussed with the people who issued the index as well as between suppliers and customers. But I think, yes, we have a good long relationship with many of the suppliers, but they are doing …they seem to be doing what is right for their shareholders, and we are doing what we think is right for our shareholders. So, I think we, obviously, must find that balance. But the challenge going forward, this is not a sector which is getting a lot of investment for growth. But India is already the largest importer of coking coal and Indian steel capacity is going to double over the next 10 years and will double again over the 10 years after that. So, till such time, we have enough gas or hydrogen as an alternative to coking coal, we will be vulnerable to the volatility in the coking coal market

Prashant Kota, *Emkay Global:*

Sir, apart from that, the net NRV losses and inventory losses across India and Europe, if you could quantify that please, this quarter, how much was that? Rs. 1,000 crores?

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

There is no NRV as far as India is concerned. There was NRV to the extent of about £55 million, as far as Europe is concerned.

Operator

The next question is from Anupam Gupta of IIFL

Anupam Gupta, *IIFL*

Yeah. Sir, I had one question on iron ore sourcing. So, you have that iron ore mine at NINL. So, including that and other mines which you have, can you just lay out iron ore sourcing change over the next 5-6 years and also include let's say, once the existing mining leases gets over in 2030?

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

So, basically, our desire is not to buy any iron ore, and we've not been buying iron ore. We've been buying pellets, because we have enough iron ore to take care of our iron ore needs, but we didn't have enough pellets to take care of our pellet needs. But with the pellet plant coming up in Kalinganagar, which has already come up and over the next few years, we'll build another pellet plant in the Angul facility, which is a Bhushan facility. We will be self-sufficient in pellets. So, hopefully, from the second quarter of the next financial year, we shouldn't be required to buy any pellets, and we want to keep it that way. The iron ore expansion is being planned to keep pace with our steel expansion, and so that will continue. As far as post 2030 is concerned, as of now we have about 550 mn tons of iron ore reserves for post 2050 -- I mean, 2030 because we have the Gandhalpada mine, which is a greenfield mine which we bid for and got, which we will develop by the pace that will be needed. And then we have the Kalamang mine which has come to us from Bhushan, the Neelachal mine, which has come to us with the Neelachal Ispat Nigam Limitedacquisition. There's also a mine in Jharkhand, which has come to us with the Usha Martin acquisition. So, all this put together, we have, at this moment, about 550 mn tons for post 2030. We will continue to participate in auctions as they come up going forward. We will also have options on our existing mines, and we go out for auctions in 2030.

Operator

Thank you very much. That was the last question for today. I would now like to hand the conference back to Ms. Samita Shah for closing comments. Over to you, ma'am.

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

Thank you, Kinshuk. Thank you everybody for joining us for this call. I hope lot of your questions were answered and found that useful. Look forward to connecting again at the next call. Thank you, and bye-bye.

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

Thank you

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