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 Dixit, ICICI Securities
Ashish Jain, Macquarie Research
Kirtan Mehta, BoB Capital
Satyadeep Jain, Ambit Capital
Sumangal Nevatia, Kotak Securities
Tarang Agarwal, 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***

Thank you, Kinshuk. Good afternoon, everybody and welcome to this call to discuss our results for the second quarter of FY2024. We published our results yesterday, and there was a detailed presentation explaining the same uploaded on our website. I hope you had a chance to go through it. We had quite a few announcements also with the results, and we would be happy to share the details and provide any clarifications you may require. We will be joined on this call by our CEO and MD, Mr. T. V. Narendran; and our ED and CFO, Mr. Koushik Chatterjee. Before I hand it over to them, I would like to remind you that this entire conversation today will be covered by the safe harbour clause on Page 2 of our presentation Thank you, and over to you, Naren.

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

Good afternoon, good morning, or good evening, depending on where you are. Thank you for joining the call. I'm going to make a few comments and then hand over to Koushik.

Tata Steel, as you know, is focused on creating sustainable value and our strategic priorities embodies our commitment to responsible growth while creating an equitable share and prosperous future for all. We continue to make steady progress on this value creation journey, leveraging digitisation and an agile business model.

During the quarter, steel prices across regions moderated on slowdown in economic activity. In the US and EU, elevated interest rates to manage inflation adversely affected demand, while in China, persistent weakness in the property market continued to be an overhang on the prices. In India, the steel prices were impacted by the global sentiment, but given the resilient demand, it witnessed a lower drop in prices of 3% QoQ than the rest of the key markets. As a result, our net realisations in India declined by about Rs. 2,400 per ton on QoQ basis. We had guided about Rs. 3,000 per ton, so it is slightly better than that.

Moving to our performance. India crude steel production was around 5 million tons. Production was broadly stable on QoQ basis, but up 5% on YoY basis. India deliveries grew by about 6% YoY and have been close to 5 million tons in the last 3 quarters. Amongst the segments, the Automotive segment had the best ever 2Q sales and was up 7% QoQ. We have started producing full hard cold rolled coils at the Kalinganagar cold rolling mill and have started receiving approvals from the automotive OEMs for cold rolled steel from Kalinganagar. Our retail sales primarily to homebuilders have continued to grow and have crossed 3 million tons in the last 12 months. Our well-established brands, such as Tata Tiscon, Tata Steelium and Tata Astrum, had best ever 2Q sales and revenues from Tata Steel Aashiyana, the e-commerce platform for individual homebuilders, witnessed an increase of more than 70% on QoQ basis. In the last 12 months, Tata Steel Aashiyana revenues have exceeded Rs. 1,700 crores.

In Europe, steel deliveries were around 1.8 million tons in the second quarter on subdued demand and the revenue per ton was down about £50 - 60 per ton in UK and Netherlands on QoQ basis. This has weighed on performance in both the geographies. The ongoing reline of one of the blast furnaces at Ijmuiden in Netherlands, which accounts for 40% of our production there, has also impacted the Tata Steel Netherlands realisation because of the adverse product mix and other expenses. The relining is expected to be completed in the third quarter of FY24, which is this quarter.

In terms of growth, multiple projects are underway across India, ranging from the 5 MTPA expansion at Kalinganagar as well as growth in the downstream portfolio. The downstream portfolio, which consists of our tubes business, our wires business, our packaging or tinplate business, and the DI pipes business is expected to grow from about 2 million tons to 7 million tons, which enables better product mix enrichment. We recently had the ground-breaking ceremony for the 0.75 MTPA EAF project at Ludhiana and are targeting to start the plant in 2026.

We are committed to achieve net zero by 2045 and are pursuing decarbonization of operations in a phased manner, calibrated to the regulatory framework, resources, government support and customers in each of the geographies that we are in. Accordingly, in September, we announced a proposed plan to invest in a state-of-the-art scrap based EAF at Port Talbot, UK at a cost of £1.25 billion with a government grant of £500 million. This is subject to relevant regulatory approvals, information and consultation process and finalization of detailed terms and conditions. The transition to EAF-based steelmaking will result in the reduction of about 50 million tons of direct carbon emissions over a decade. There will also be impairment and restructuring costs, which Koushik will explain in more detail. Tata Steel Netherlands has been working intensely with the Government of Netherlands on the contours of decarbonization project covering emissions and health standards. Tata Steel Netherlands will shortly be submitting the detailed decarbonization proposal to the Government of Netherlands seeking regulatory and financial support, which is critical to build a long-term and strong business case. The Board of Tata Steel will duly consider the project for approval at an appropriate time. In India, we are entering into an agreement to source about 379 MW of renewable power for our operations, which will enable a reduction of 50 million tons of carbon emissions over the next 25 years. This will significantly reduce our dependence on coal-based power plants.

Looking ahead, in India, net realizations are expected to improve by about Rs. 2,200 per ton QoQ, aided by domestic demand, which has shown great resilience despite the renewed volatility in the global sentiment. The coking coal consumption cost is likely to increase by about $10 per ton QoQ. In UK and Netherlands, the improvement in costs is likely to offset the drop in NRs and drive an improvement in the performance on QoQ basis. I am happy to share that Tata Steel has received the Safety and Health Excellence recognition for 2023 by worldsteel. We were recognized for our innovative approach to real-time visualisation of risk movement that aims to provide real-time insights and alerts. These initiatives display our commitment to achieve zero harm. Thank you. And over to 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. I will begin with the quarterly performance provided on Slide 25. Our consolidated revenue stood at Rs. 55,682 crores, and the consolidated EBITDA was Rs. 4,315 crores, which translates to an EBITDA margin of about 8%. Standalone performance was broadly stable, but the UK and the Netherlands performance has been adversely impacted during this quarter.

Before we get into the numbers, I would like to mention that we have received sanctions for the amalgamation of Tata Steel Long Products (i.e. TSLP), and Tata Steel Mining with Tata Steel Limited. Accordingly, the Standalone financial statements have been restated from 1st April 2022 to reflect the merger. With this, the merger process for 2 entities has been largely completed, and the other 5 are in progress as highlighted on Slide 20. This portfolio simplification process will drive efficiencies and prevent value leakages.

For the quarter, Tata Steel Standalone EBITDA stood at about Rs. 6,917 crores, which translates to an EBITDA per ton of about Rs. 14,365. Excluding forex gain of about Rs. 464 crores, EBITDA margin was broadly stable at about 19% on QoQ basis. As provided on Slide 31, the drop in steel realisations was offset by lower cost. Standalone NRs declined by about Rs. 2,400 per ton on QoQ basis due to market dynamics and seasonal factors. Within costs, the coking coal consumption cost was down by about $59 per ton on QoQ basis, and the conversion costs were down by about Rs 2,600 per ton QoQ. Our conversion costs have been fairly stable over the last 3 years despite the inflationary pressures in the economy.

At Tata Steel UK, the EBITDA loss was about £132 million compared to a loss of £41 million tons in 1QFY2024. On a per ton basis, EBITDA moved lower by about £127 per ton QoQ. As shown on Slide 34, the steel production was lower due to operational issues and the shutdown of the sinter plant. This has weighed on the cost profile of the operations and led to elevated costs, which offset the decline in the coking coal consumption cost and natural gas spend. Coupled with drop in realisations, this has resulted in lower spreads on QoQ basis.

In Tata Steel Netherlands, the EBITDA loss stood at about £110 million compared to £114 million in 1Q. As shown on the Slide 33. The drop in realisations was offset by the improvement in costs. Revenue decreased by about £60 per ton on subdued demand but was fully offset by lower raw material costs on decline of coking coal consumption cost and lower conversion costs primarily on decline in the natural gas spend, along with reduced repairs and maintenance costs. Looking ahead, the completion of BF6 in the third quarter, which is this quarter, should drive the liquid steel production and further improvements in the product mix and cost. As previously explained, we have hedges in place for energy at both UK and Netherlands and the drop in spot natural gas prices has reflected in the 2Q P&L with a lag.

I would now like to brief you about Tata Steel UK developments to supplement what Naren has said. Subsequent to the announcement of the agreement with the UK government for the decarbonisation project in September, we are in discussions and consultation with the union and the employee representatives in the UK in relation to the restructuring of the business, its configuration within the transition time and the eventual investment towards decarbonisation. The restructuring and the transition would commence after this consultation. Given our proposed plan to change the business model and the route for steelmaking, the existing heavy end assets at TSUK can only be used for a defined period. Accordingly, we have taken an impairment charge against the investments in the standalone financial statements in relation to the UK business. We have also recorded an impairment of assets and provisions for potential restructuring, closure, and redundancy costs in the consolidated financial statements in relation to the UK business. The impairment charge in Tata Steel Standalone is Rs. 12,961 crores and the charge in the consolidated books is about Rs. 3,255 crores. Let me explain the difference. In standalone, the discounted cash flow value of every business is compared to the net carrying value of the investment made in that business. A deficit in that leads to impairment. Such impairment in standalone gets reversed in the consolidated statement. In the consolidated financial statement, the discounted cash flow of the individual businesses is compared to the carrying value of the plant and equipment and the fixed assets. In the above case, the carrying value in standalone was higher than the consolidated business, and that is why this difference.

Moving to taxes, there was a sharp drop this quarter. The current tax was about Rs. 1,105 crores and broadly in line with the tax on the profitability of the India operations. The deferred tax credit of Rs. 1,333 crores has been driven by the merger and completion of the British Steel Pension Scheme. Taxes should get normalized post all these mergers. The deferred tax includes credits on account of TSLP and the merger on mining. And there are other tax adjustments, which we can explain to you offline.

Moving to the cash flows. The operating cash flow for the quarter stood at about Rs. 4,658 crores and in part was driven by the favourable working capital movement. In the second quarter, there was a working capital release driven by the fall in the coking coal inventory volumes of around 200,000 tons and a drop in steel prices and reduction in debtors. We spent about Rs. 4,553 crores in capital expenditure during the quarter and about Rs. 8,642 crores in the first half, as we keep prioritising growth in India, including expansion of the downstream portfolio across wires, tubes, ductile iron pipe and tinplate businesses. Overall, the operating performance at Tata Steel Netherlands and Tata Steel UK, higher capex and dividend payout have led to a decline in the cash and cash equivalent by about Rs. 6,352 crores. As a result, the gross debt has remained stable on QoQ basis, but the net debt has increased by about Rs. 5,600 crores. Our finance costs are broadly stable on a QoQ basis. The group liquidity remains strong at about Rs. 27,637 crores, including about Rs. 12,691 crores of cash and cash equivalents. As you are aware, Moody's upgraded our credit trading to investment grade in the month of September 2023. Thank you, and over to the floor for Q&A.

QUESTIONS AND ANSWERS

Operator

The first question is from Sumangal Nevatia of Kotak Securities.

Sumangal Nevatia, *Kotak Securities:*

The first question is with respect to the developments in the UK. One is we have taken restructuring provisions, but what is the status of the discussion with employees? And when is it likely to conclude? Also just want to understand, over the 3 years when the construction of the new plant will happen, in the previous discussions, we shared that we would look to use the downstream assets of UK. What sort of volume and EBITDA of just rolling do we expect over the interim period?

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

Sumangal, the first is, as we mentioned in a pretty detailed manner in our release yesterday, the conversation and the consultation process has started ever since our announcement on 15th September. There is a proper process that we have to follow, which is stipulated legally. And we are doing that, and we will do that. It is a meaningful consultation. We will obviously, as a responsible corporate, continue to hear their point of view or any other suggestions or advice or any point that they may have on our proposal. And once we have looked at it over the next couple of weeks, we will certainly progress on this conversation. I can say that this is progressing as per plan. It is dealing with a very sensitive subject, and we are mindful about that. But it is also about getting the investment process in place. So, we continue to engage with the unions, and we continue to do so until it gets formally completed. The formal process takes about 45 days at the minimum as per legal requirements, but that formal process starts after a certain period. [inaudible] The informal process continues and give opportunities to both sides to explain positions. We have also had detailed engagement with the advisors of the unions and have shown them the counterfactual positions and our issues in sustaining the business in its current vulnerable form and also the operational risk and the market risk that we face. It is a very intense and an exhaustive process, which we are currently in. Then we hope to complete as per the timeline that we have set for ourselves.

As far as the transition period, yes, you are right. As per the proposal that we have agreed with the government and the proposal that we've put forth to the unions, it is important for us to continue to ensure market protection and for which we will continue to focus on ensuring a stable supply chain to run the downstream unit. The volume should be in the ballpark of 2.5 - 2.6 million tons. But more details on this, I would be in a better position to give once the consultation gets over and ensure that we have tied up all the ends as far as sourcing, production, and all of that is concerned. I think it will be a good time to talk about it in the next earnings call rather than now.

Sumangal Nevatia, *Kotak Securities:*

Understood. That's very helpful. Second question, continuing on the Europe division. The losses in both regions are increasing. So one is, if you could just share some outlook on margins maybe next quarter and also over the next 2 - 3 quarters? How should it shape up after relining? And is the relining also getting a bit extended into 3Q?

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

Yes. Sumangal, I think on Netherlands, yes, the blast furnace relining has extended to this quarter. As Koushik mentioned, we are expecting that, by the end of November, latest by the first week of December, we will have the blast furnace up and running. We expect the numbers of [inaudible] Netherlands to be better than last quarter, but we expect it to be EBITDA positive only from next quarter, which is 4QFY24. So, there are a few things. Obviously, the blast furnace, which is down, accounts for 40% of our volume. So, you are carrying fixed costs with 60% of the volume. So that has an impact, which is seen. Secondly, as we mentioned last time, we work on a forward hedge on gas prices, etc. So, our energy cost, gas prices in the second half should be lower than what it was in the first half in Netherlands. That should help. Volumes should be better. The costs should also be better. Of course, the spot spreads are a concern in Europe just now, but we expect that given the current levels, as you know, in Europe, some of the producers have already put down blast furnaces, so there will be a better balance between demand and supply. Either coking coal prices have to come down or steel prices have to go up. That's what we expect to happen in 4Q.

Sumangal Nevatia, *Kotak Securities:*

Understood, and the UK existing furnace, which quarter do we mothball it? Do we run it entirely in the second half?

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

Sumangal, I think a safe thing to say is that we will run it fully in this quarter, which is the third quarter. And post consultation, I think we will be in a better position to tell you when and how we are going to deal with the heavy end, and that would be a better way [inaudible]. But I think that in the transition period, as I said, we will continue to operate downstream facilities.

Operator

The next question is from Tarang Agarwal of OldBridge Capital.

Tarang Agarwal, *OldBridge Capital*

A couple of questions from me. One on Netherlands. What is the sustainability capex outlay that you are looking at? And would you expect a similar support that we've seen for some of the other European governments that have extended to your peers. The second is on UK. If you could give us the net cash outflow and the timing of these cash flows as the transition plan starts. How is it going to be staggered over the next 3 year period? And what is the quantum of it? My sense is, as there will be settlements, there will be capex, but you will have a reduced maintenance capex also.

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

Thanks, Tarang. I'll let Koushik answer the second one. On the first one, we don't want to give you specific numbers now, but I'll give you a few principles. I think in Europe, when any steel producer is making submissions to government, I think the ask is 40% to 60% of the capex that is required for the transition. That is one. Secondly, on opex, it depends on the country and the advantages or disadvantages that the country has. It is more a question of creating a level playing field because different countries are giving different supports to the company. You don't want to end up at the other end of the transition at an operational disadvantage compared to where your peers are. These are the 2 principles on which the ask is curated. The specific amounts, we will not want to discuss just now simply because there is a conversation going on with the government. And once it is more definite and we have discussed with our Board, the proposal in its entirety, we will come back. But the principle is this.

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

Yes. On the second part of the question, which is on the cash outflows. The project cash outflow is about £1.25 billion, of which £750 million will be borne by Tata Steel, and about £500 will be grant from the UK government. That spend will start more around the second half of FY25 because we are currently in the detailed engineering phase. And this engineering work takes about 5 months or so. And once that is completed, then the grant agreement becomes effective and then we start spending the money. The initial spend is obviously done by Tata Steel, but that money comes in arrears of a quarter, etc., and it will go almost hand in hand. So that £750 million follows typically how a normal organic growth project is, which is over a 4-year period and the last 20% is after commissioning. That is how the thumb rule is. I think that is how we should take it. In the meanwhile, the restructuring cost is obviously more front-loaded than the capex spends, and the restructuring cost will be spent in the first half of the financial year FY25. The amount of that restructuring will be negotiated or agreed upon, especially in relation to what relates to employee impact during the consultation phase. We would not want to talk about it because it is commercially sensitive at this point of time. And we will obviously have to discuss the specifics of it. We know the numbers in our head, but I think commercially, it would be important to talk once the consultation is over.

Tarang Agarwal, *OldBridge Capital*

I understand. Sir, would this also entail reduction in your current capital outlay for the Port Talbot capacity because essentially, a part of the capacity will be mothballed, right? To that extent, you should see some savings on maintenance capex, per se?

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

The total capex for Port Talbot used to be typically around £80 - 90 million a year. [inaudible] in future years or during transition, the investment in our mind is only on the downstream, which is pretty small compared to the heavy end. The category 1 and category 2 capex for the heavy, which is essentially for license to operate & safety and ensuring the quality or the condition of the assets so they can continue to operate as we are in consultation. Beyond that, big investments on the current assets are not in place.

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

Also, I think there will be a saving on the maintenance opex because there is a significant maintenance opex currently, which goes in UK for the heavy end.

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

That's correct.

Operator

The next question is from Satyadeep Jain of Ambit Capital.

Satyadeep Jain, ***Ambit Capital***

Just switching gears to India for a bit. Just wanted to know what is the progress on KPO-2? Is it on time and budget?

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

Yes. I think what we mentioned, the pellet plant is already operating. One line is pulled out. The second line will start this month. So, the pellet plant and cold rolling mill are operational. These are the 2 that we prioritised. The FHCR that we make out of the cold rolling mill is already getting approved by automotive customers after we have annealed it in Jamshedpur and sent it. The blast furnace should start in the next 6 months or so. In fact, earlier the better, but we are basically targeting that in the next 6 months we will start the blast furnace. We are also starting the second caster in the steel melt shop this quarter and that will give us some additional volume because with the existing blast furnace, we can produce a little bit more. I think one by one, all the facilities are coming on stream. The coke ovens will start, then you will have the third caster in the steel melt shop coming on etc. and the galvanizing lines and the annealing lines in Kalinganagar are also coming on next year. So, in the next financial year you will see most of the critical facilities being commissioned in different stages of ramp-up.

Satyadeep Jain, ***Ambit Capital***

Okay. Secondly, coming back to Europe, you mentioned that you will finalise the numbers and operating drivers during the transition period in the next quarter. Broadly, do you expect to be cash breakeven at least during the transition period? Also, you have taken writedown based on comparing DCF with the carrying value. Given the life of Netherlands is also another 6 - 7 years and maybe your discounted value is higher right now, if you have to take a look at impairment, have you taken full impairment of heavy end assets in UK, which means have they been written down to zero? And what kind of potential writedown be there in the next couple of years or so in any other asset?

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

Satyadeep, I think as far as the UK is concerned, this is a definitive play. Once you sign a term sheet with the government, providers of capital and then it is the procedures to move on. I think the upstream gets very much defined in terms of its operational longevity, certainly financial longevity. And that is the basis on which we have taken the entire writedown of the upstream as part of this impairment that you see, which is both the asset side and obviously, from the investment side in the standalone. In Netherlands, we are not in that state at this point of time. In fact, as Naren mentioned in the early part, we are relining the blast furnace. That is a renewal of life as far as BF6 is concerned. In Netherlands, the pace of decarbonisation project is high, but in terms of timeline it’s behind the UK at this point of time. Therefore, once the transition plan is finalized and once the transition configuration is finalized, that is the time when we will keep doing the assessment, and hopefully, we will be able because Netherlands is fundamentally more profitable. So, its ability to have a more economically stable transition is much higher than in the UK because these assets in the UK have been lagging in their ability to generate cash flows for some time. So I think Netherlands and UK are in different stages at this point of time. We will be looking at the feedback from the government. And as we continue to engage with them very intensely, understand the pace and the flow of the transition, come back to the Board and then we will know how the pacing will work. It is slightly different in Netherlands compared to the UK and Netherlands also has a very rich downstream asset portfolio, which is linked. And with the new blast furnace coming in, it is a slightly different story.

Satyadeep Jain, *Ambit Capital*

Just a clarification on that cash flow during transition period, just broadly, do you expect it to be cash flow positive?

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

Yes. Sorry, you asked that question. I think, yes, broadly, based on our assumptions, the way we've been planning is that this business has to sustain during the transition. Our assumption is that we would be sourcing, converting, taking out costs in a manner such that it is very lean during the transition and hence be neutral on its cash flows other than the one-offs, which is the restructuring cost and the project cost.

Operator

The next question is from Kirtan Mehta of BOB Caps.

Kirtan Mehta, *BoB Capital*

One question as a follow-up on the UK transition cost. With the shutdown of the blast furnace in the Netherlands, we are currently running in a slab to rolling mode. What would be the gross spread that we are currently earning there. As of now, it is not sufficient to cover the high associated fixed cost. That is the reason we are running into the losses. But how does that gross spread compare with the UK when we operate only in the slab mode?

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

There is a spot spread and there is a felt spread. The felt spread is around €240 per ton. The spot spreads are very much lower than that. That's because the coking coal prices are high, and the steel prices are low. But the spread at which we operate is around €240 – 250/t. We are making a loss in Netherlands because obviously, when you run at 60% capacity, the fixed costs get distributed over smaller volumes and at €240/t, you cannot be making money. As far as UK is concerned, I think the larger point which Koushik is making is, obviously, this is all subject to consultations and where we end with the unions. But broadly, the plan is whatever we do, how we can do the transition in a cash neutral or cash positive way. I think that's primarily the objective, whether it is slabs or coils or whatever it is that we bring in because there are 2 - 3 objectives of the transition. One is how can we be cash neutral or cash positive? Two is how can we keep the downstream units running because that also has an impact. 50% of the workforce in the UK is in the downstream units. And the third and most important is how do we make sure that our customers are serviced.

Kirtan Mehta, *BoB Capital*

Just one clarification. €240 per ton spread, when we are talking about, is it the integrated spread. If we are not having a blast furnace and operating only on slab, then what would be the conversion spread that we earn from slab in the Netherlands currently? Would we have any idea about that number?

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

So, I don't know if Koushik wants to answer that. But broadly, the slabs that we used, honestly, are high-cost slabs, which we produced last year and kept in stock in anticipation of the reline. So that is part of the reason why we have a negative EBITDA, or we've had NRV losses in the last 2 - 3 quarters. You had to produce slabs when you could, and that was last year when gas prices and everything else was at its highest level. We built slab stocks of about 7,00,000 tons before the blast furnace reline. Now we have drawn down stocks that will translate into working capital release, but they were all high-cost slabs and also contributed to the financial performance of Netherlands over the last few years. But typically, slab hot rolled coil gaps are not so great and nobody in Europe on an ongoing basis, be looking at bringing slabs and making hot rolled coils and sell. And a lot of our hot rolled coils are also sold to customers who seek approvals, etc. So that's more a temporary situation than something that we look for as a long-term solution. Koushik, I don't know if you want to add more colour to it.

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

I was just guessing the answer that you are trying to get is, in a European situation, if purchased raw materials in an integrated basis, the average EBITDA percentage is about 6 - 8%. In case of a conversion model, that falls down to somewhere around 3%. So, I think that is broadly the way in which it works.

Kirtan Mehta, ***BoB Capital***

Understood, sir. And just one more clarification. I think you mentioned in the opening remarks about the coking coal reduction or the coking coal cost increase that we can see in quarter 3, I missed that number. Would you be able to sort of indicate that number again?

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

It is different in different operating units. In India, 3Q is going to be about $10 - 11 per ton higher than 2Q. In Netherlands, it's going to be about $60 - 65 per ton lower. I'm talking of consumption, because in Netherlands, last quarter, a lot of higher cost coal was used. And in UK, I think it is going to be about $20 per ton lower in 3Q compared to 2Q.

Kirtan Mehta, ***BoB Capital***

Great. Against that $100 increase that we are seeing in the coking coal prices in India, we are only anticipating increase of $10 – 11. Are we benefiting from availability of the higher inventory of coking coal in India operations?

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

No. I mean, basically, you're using the coking coal that you bought last quarter. So last quarter, the prices were dropping until September, then it started going up from September. Typically, you will get the coking coal 2 - 3 months after you buy it, or you contract it. That is what comes into the consumption. You had a higher reduction. I think we had a $60 reduction in 2Q compared to 1Q, and we have $11 increase in 3Q compared to 2Q. And the reverse is true in Netherlands where we consumed some of the higher cost coal, so we had only a $7 reduction in 2Q compared to 1Q, but we have a $60 reduction in 3Q compared to 2Q. So, it's basically the inventory flowing through.

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

It is a lag effect.

Operator

The next question is from Ashish Jain from Macquarie.

Ashish Jain, *Macquarie*

My first question is, in the UK, this provision that we have taken off for roughly Rs. 2,425 crores, does that include some provision towards the onetime cost that you might incur related to employees? Is that the right way to understand?

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

There are 2 elements in the provisions that we have taken in the UK. The first one is in relation to the PP&E, which is in relation to the way in which impairment is taken. The second provision is in relation to potential [inaudible] obligations triggering out of the redundancies & closures and restructuring costs. Both have been taken.

Ashish Jain, *Macquarie*

Right. My focus is that Rs. [inaudible] crores number, that is our current assessment or best case judgment of what the onetime employee-related cost could be? Is that the right way to think?

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

It has got multiple elements in that. It is a broad bracket of restructuring. It has got potentially a closure or a restructuring, if there is a contract termination, [inaudible] there is a people number. It is a basket of provisions.

Ashish Jain, *Macquarie*

Sir, secondly, we spoke about where our costs might go down in the UK in terms of lower maintenance and all, which is well understood. But let's assume this employee negotiation gets over in 1Q next calendar year. Shall we also assume that whatever the redundancy is, the cost related to that also goes out from 2Q itself and hence, our fixed costs will decline sharply in UK. Is that the way to think?

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

It is a sensitive subject to talk about just now before we complete the consultation because it also involves the nature of people being impacted in the context that there is a phasing that may happen based on our proposal at this point of time with pre-consultation and post-consultation. But normally, what happens is, it's not a switch off. It is a phasing. These costs will be incurred over maybe 2 - 3 quarters in a proportionately sliding scale basis based on the numbers that we agree etc. The provision that has been taken is on a gross basis. And as and when the restructuring is agreed upon or negotiated with the unions, the cash outgo will happen. Bulk of the cash outgo will be in the first half of FY2025.

Ashish Jain, *Macquarie*

Koushik, sorry, to harp on this, but just to clarify, maybe bulk of the onetime outgo happens in first half next year? Or whatever be the time frame. But whenever that happens from that shall we assume the fixed cost will decline? The reason I'm asking is because if I take a 24 - 36-month time frame, where we will be importing steel and servicing the UK market, if the fixed cost does not come down from day 1 or day 2, would it be a continuous drag on cash flows in the UK?

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

Yes. Ashish, your understanding is absolutely correct. The whole focus of this whole restructuring, reinvestment, or the transition period, as both Naren and I have mentioned, is to run the business in transition, which does not drag on cash flows. So therefore, fixed cost is a very important part because once you don't have the heavy end, which is the bleed end of Port Talbot, then you would certainly reduce the fixed cost in one go, but the effect of that takes two quarters. But whenever it happens, it will certainly come down very sharply across the organization. And therefore, that is how it will sustain itself. As I mentioned a while back, because your fundamental EBITDA spreads also come down. And in that, if you have to make profits or cash flows, you have to ensure that your entire fixed cost overheads, everything runs very, very tightly.

Ashish Jain, ***Macquarie***

Right. Right. And just my second question, it's a very small question. If I extend the current spreads in Netherlands to 4Q, when we become fully operational and our maintenance and all will be behind us. On current spread basis, we would be making losses in 4Q also, I guess, right?

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

Not at the EBITDA level. We will be EBITDA positive.

Operator

The next question is from Amit Dixit ICICI Securities.

Amit Dixit, ***ICICI Securities***

I have a couple of questions. The first one is, essentially, if you could bridge the gap between TSE EBITDA for last quarter and this quarter in 3 buckets - realisations, coking coal and relining costs, that would be great. That is the first question I have? So for example - from $96 to $170/t. What is the bridge? How do we break it into 3 buckets - realisations decline, coking coal cost and relining cost?

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

I'll give you 2 of the 3. We'll think of the third one. On the realisation, 2Q over 1Q for Netherlands was down £61 per ton. As far as coking coal is concerned, it was down $7 per ton. Relining basically, the impact is volumes. I think we had slightly more volume in 2Q because maybe we sold more. But production wise, not so much difference between 1Q and 2Q. But both 1Q and 2Q were bad because you were only operating one blast furnace. So, cost gets distributed over lower volumes.

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

To substantiate, the volume impact between 1Q and 2Q, we have sold about 1,00,000 tons lower in 2Q compared to 1Q. The realisations, as Naren mentioned, was about €60 per ton lower QoQ. And then there were other costs [inaudible] gas prices and energy prices were also lower. Repair and maintenance prices were slightly lower. So that's broadly the bridge that we have. There were no one-offs included in this.

Amit Dixit, ***ICICI Securities***

The second question is essentially on net debt. While we have seen net debt going up this quarter despite the operating cash flow being almost at par with capex. Now going ahead, the performance is going to improve in India as well as in Europe. Is this the peak net debt level that we are seeing for the current year and for next 3 - 4 quarters, maybe?

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

For the next 2 quarters, I would say that the assumption that the Netherlands comes back in the way that we are planning, the net debt number should be around this. There could be plus and minuses. We will certainly want to reduce net debt from where we are. But given the market conditions, especially internationally and depending on where the restructuring expenses are when it is going out, I think it is broadly in this range. It will be for the next 2 quarters. But our long-term goal of reducing net debt remains. We've been pushed back by certain events and circumstances in the market, but I think we will continue to focus on reducing the net debt from where we are.

Amit Dixit, ***ICICI Securities***

But [inaudible] of restructuring and ex of capex, whatever we will incur at TSUK, I think it is safe to assume that given the market conditions, net debt level should come down from here?

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

That is correct. That's what we are saying.

Amit Dixit, ***ICICI Securities***

And last one, if I may. If you can explain the BSPS related provision in the notes and is there a cash outflow also associated with it? Because we thought that BSPS step is over, but suddenly, we saw this provision again.

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

No. So this is not a provision as such. BSPS was sitting in our books, and we closed the buy-in in the first quarter. Post the buy-in getting completed, there was a certain amount of surplus, which actually belongs to the members. As part of taking it out of the balance sheet effectively, that surplus is the one which has gone in. It is not a provision. That surplus was at some point in time credited to the balance sheet, so now it has gone away from the balance sheet, and there was a deferred tax impact on account of that. There is no cash outgo. The BSPS is a done story at this point of time. In 1Q, the buy-in was completed. Now the separation has been completed in some ways.

Operator

The next question is from Ashish Jain Macquarie

Ashish Jain, ***Macquarie***

My question is on India growth plans. I think you clarified that the Kalinganagar 5 mn ton will come in next 6 months or so?

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

I said the blast furnace will start and will ramp up. You would see next year as a year of ramp-up of Kalinganagar.

Ashish Jain, ***Macquarie***

Right. So, sir, what are we planning in terms of our next phase of growth because we have a well laid out plan in terms of where we want to be in FY30 in terms of domestic capacity. What is the thought process in terms of when do we take up the next phase of expansion because there is a 3 – 4 year time frame for that?

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

Sure. One is the ongoing projects, like I said, Kalinganagar and the Ludhiana EAF project, for which the ground-breaking has just been done. And in the next 2 years, we should have that capacity up, that's 0.75 MTPA. These are clear cut for the next 2 years. Over the next 6 months, we would be finalizing the plans for Neelachal expansion and also working on the Kalinganagar Phase 3. In terms of opportunity, we can grow Neelachal from ~1 million to 5 million over the next few years and the plans are being developed. It will be taken to the Board in the next few months. We have an opportunity to take Kalinganagar from 8 to 13 million tons. As we finish this expansion, you can move seamlessly into the next phase. And there is the Bhushan plant in Meramandali, which can go from 5 to 6.5 million tons in the first phase and from 6.5 to 10 mn tons in the second phase, which we will need a little bit more land in the surrounding areas. If you look at Bhushan going to 6.5, Kalinganagar going to 13, Neelachal going to 5 mn tons. You're already at about 25 mn tons. Jamshedpur is already at 11 mn tons. So, you have 36 mn tons. You have at least 1 EAF, which is Ludhiana, so you are pretty close to 37 mn tons. And beyond that to 40 MTPA, you have an option of scaling up other EAFs. We are already looking at South as the next location.

Ashish Jain, ***Macquarie***

Sir, I understand the road map and all because we have been talking about it. My point was more like why are we delaying taking up the expansion? Are we going slow because of our balance sheet focus? Because if I compare with what our peers are doing in terms of expansion, at least at this moment, they seem to be a bit more aggressive or ahead of time. And especially given the India growth story and the volume expectation and all, do we think that we are running the risk of losing market share from a capacity point of view?

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

Not really. Of course, we will keep an eye on the balance sheet, and we want to make sure that we drive that balance between our debt levels, balance sheet and growth. But India is value-accretive growth. I think India business is always cash positive, and we can, in some sense, fund the growth. To that extent, the India growth will always get priority. But we are also going through a process where a lot of detailed engineering is done. We are trying to reduce the cash-to-cash cycle in our expansion projects. To that extent, we are doing a lot more engineering work before we start spending, taking it to a higher [inaudible] levels before we start the spend. The work is going on continuously. There is no slowdown in the pace of work, but we will obviously time it appropriately. And we have said we will be 40 million tons by 2030. So that is very much on track.

Ashish Jain, ***Macquarie***

And if you can comment on it, are we likely to kind of prioritise NINL first just to optimize the cost there because the current scale is quite small, or we are open to everything at this moment?

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

I think in terms of sequence, apart from the EAF projects which can operate independently, I think after Kalinganagar, 5 million, which is moving from 3 to 8, the next phase is most likely to be Neelachal expansion. And then you have both Bhushan and the Kalinganagar 8 to 13 happening parallelly.

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***

Thanks, Kinshuk. So, we'll start with the questions. I think many questions on TSUK. Is the restructuring now done? And does it include employee separation costs? And what will be the capex guidance for FY2025?

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

The restructuring is not done. We have taken provisioning as both Naren, and I mentioned that we are undergoing a consultation process. That is the process laid by the law of the land in the UK and that process involves first the informal consultation and then the formal consultation. We, for the last 1.5 months, have been in informal consultation with the unions, their advisors, their reps at the ground level, and we will shortly commence a formal consultation when we finish the informal consultation of hearing them and then getting us on our way forward [inaudible] transition plan as well as the financial impact that the running of that business is causing. The restructuring is planned, but it is not in the execution phase. It will happen in the way that we are proposing and in agreement with the union. The unions obviously are very sensitive to the impact of the restructuring. And we recognise that. And as I said earlier, as a responsible corporate, we do all that we can do in a coordinated manner. It is not completed, but we have a constructive obligation arising out of the fact that any restructuring poses and that is what has been provided.

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

The other question was on the capex for FY2025.

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

Yes. I think it would be best to talk about it in the next call when the plan gets finalized. Obviously, priority wise, Kalinganagar is the first priority to get completed. We want to ensure that the facilities get started. So that is the main priority and we can see that in FY2025 that will rank the highest. This year, our spend has been higher on India capex, and we will continue to be so in the next year, too.

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

There is another question on TSUK. I think you've answered it, but maybe you could reiterate. Have we taken complete provision?

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

In the UK, yes, we have taken. And we have taken provisions both on the asset side as well as on the investment side. As far as UK is concerned, we have taken the provisions.

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

The next question is also on UK. It says, the International Steel Traders Association have raised concerns about Tata Steel UK utilizing most of the quotas in the past few quarters. So how will Tata Steel UK continue to import steel? And how will that work?

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

I think there are safeguard quotas at this point of time, and we will look to engage formally with the trade regulatory authorities at an appropriate time. And because the quotas are also in the context of the fact that if the upstream in the UK does not upgrade, we are the only flat product producer. From a trade perspective, that will be addressed in due course of time.

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

There is a question on Chinese steel imports, which I suppose is for India. It says, we have seen over 1 million tons of imports in the first half of the fiscal year. Do you think the government will start an antidumping investigation?

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

I think the government has recently mentioned that we will be looking at the certifications that are required and whether the steel coming in has those appropriate certifications. To me, yes, imports are higher than it has been last year. We have seen worse in the past. The larger concern to me is less of Chinese imports into India, more of Chinese exports across the world because that is already 8 million tons for the last few months, which is not a good situation from an international price point of view. The Indian market has been strong, and so domestic prices have been stable because everyone is able to sell what they produce. But internationally, we are hoping and expecting that China will be exporting less over the next few months than they did in the last 6 months. If you go back to the 5 - 6 million tons a month level, then you will have more stable steel prices. In the past, we have seen 10 million tons a month level. And now in the last 4 – 5 months, it has been at 8 million tons a month. In India, yes, we are watching the imports. If it, of course, keeps going up, then there is certainly a case for looking at it, and we will talk to the government at that time.

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

Next two questions are on India. This is about the subsidiaries and the merger. The first one is when do we plan to integrate NINL with standalone, and do we get any tax benefits because of the mergers of Tata Steel Long Products and other entities?

Koushik Chatterjee: ED & CFO – Tata Steel Limited

Yes. First question on NINL. As part of the divestment process, there was a cooling off period of 3 years. This is not for NINL, it’s in general. And therefore, we will have to wait for that period before we consider that. But in the meanwhile, as Naren mentioned, the expansion, the stabilisation and the sweating of the assets are continuing. So yes, there is a time period after which we can consider that. And the tax losses of TSLP etc. are part of the integration planning in which you see some of it reflected in the balance sheet.

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

The next question is on our ABJA bonds. What are your plans to refinance the 2024 bond maturities? Also, another question, whether the capex and working capital trends will continue to reduce cash balance in the next quarter?

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

The first one, the ABJA bonds, it forms part of our deleveraging. There are 3 elements of that bond, and we will certainly look at our cash flow planning for next year. And if we are confident about repaying some part of it and refinancing the balance, we would certainly want to reduce and get the ABJA bonds paid off in due course of time whenever they are due, mostly next year and then in 2028. And that's how we are planning our financials on that basis.

As far as capex is concerned and the cash levels are concerned, I think the capex will soon turn into generation as the Phase 2 expansion of Kalinganagar comes in. We should start seeing benefit from FY2025, second half in particular. And then as the ramp-up increases, FY2026 should be the one where we will get the maximum benefit. So once those kinds of things happen, the debt levels will certainly start looking down.

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

The next question is back on Europe. What kind of sales volume do we expect from TSUK and Netherlands in FY2024 and FY2025?

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

So, FY2024 and FY2025, the numbers we had guided for earlier.

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

I think the projection now is about 8.5 million for FY2024.

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

Yes. That is total TSE.

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

FY2025, I think, hopefully, we will go back to the longer-term level because this 8.5 million tons factors a blast furnace down for quite some time.

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

Closer to 10 million tons.

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

Yes. Between 9 million and 10 million tons.

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

The next question again is on volumes for FY2025, and we don't really give them so early, but I'll just take this question. What is the timeline for KPO-2 blast furnace commissioning? Which I think you answered. How much commercial volumes expected in FY2025? I think this is more related to TSK Phase 2.

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

Yes. I think we will probably give better guidance in the next call. Blast furnaces ramp up fast. Then the steel melt shop, and the hot strip mills. In fact, we will probably have a bit of extra slabs for some time, but I think we will be in a better position to give guidance in the next analyst call for the next year's volumes.

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

Again, questions on UK, I'll just club a couple of them. What will be the cash outflow in onetime restructuring, excluding the staff-related cost? And what is the funding plan for the £750 million capex needs of UK transition? And will there be any further impairment charges expected?

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

I don't expect any further impairment charges in the UK. We have taken all of that. The funding plan for £750 million will be a mix of, first, the equity from India and part of it would be debt. That is something that we are working on. I think the cash flows are strong enough as projected to support that. We will combine the two, but there will be a larger equity component from India to support it, and then we can replace the same. What was the first question, Samita?

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

This was about the cash outflow in terms of the restructuring costs at UK excluding employee costs.

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

Well, that's like trying to slice the cake. I think we just need to go through the consultation process first, and then we will be able to firm that up. I can give you the elements of that restructuring, which will be elements like decommissioning or mothballing any of the facilities, especially as in our current context, the hot strip mill will have to be upgraded, the caster has to be upgraded. So, during the time these are upgraded, they will be decommissioned or mothballed to facilitate that [inaudible]. I think those are the ones I would say that the redundancy provisions or the restructuring costs largely relates to, but we don't yet have a handle on the number until we complete the consultation process.

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

The next question is on India, on the NRs and the market conditions. I think you mentioned it in your speech, Naren, but if you can just elaborate about it and the outlook for the rest of the quarter.

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

I think what we've guided is 3Q will be about Rs. 2,200 per ton higher than 2Q as far as realisations are concerned. Like I said, demand is strong. We've seen 10% growth in consumption on YoY basis because all engines are firing, automotive is strong, construction is good and rural markets are picking up. I think the only gap is a little bit more on what's happening in the international markets and international prices, but domestic is quite strong.

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

We'll move to Netherlands, where there are questions about the potential decarbonization project. What will be the capex? What is the configuration they are looking at? Would there be a production loss in the interim? And how will we fund it?

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

Just now we are in conversation with the government on the configuration. Based on that configuration, the capex will be finalised. And the intent is, as we said earlier that the BF6 will continue because it is a new furnace. And the other furnace will get replaced. What is the exact configuration is something that we will be looking at. But roughly, from a volume terms, the first phase will be a 3 million tons transition. But I think the funding, the capex etc. is a matter of negotiation and discussion with the government. And we are deeply engaged in it. The submission of the broader plan is going to happen shortly. And then based on the feedback, as Naren mentioned, we will go through the phase during which the negotiation for the support is discussed and the balance will be by the company, largely out of Tata Steel Netherlands, and that is the funding plan that we will finally come about and disclose. There is some time to do that. It is not happening imminently, but it will certainly happen in the near future.

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

There is a question on India now, which is more about our strategy vis-a-vis downstream assets. Is it about market share? Is it about profitable growth? Can you explain how you see this growth panning out in India?

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

So, I think downstream has always been an important part of our strategy because we see that as you have more downstream businesses, you are closer to the customers, final consumers and you are also insulated to some extent from the cyclicality or at least there is a lag in the cycles and that helps us. Our biggest downstream presence is in the tubes business, the pipes business, which is today 1 million tons, and we want to take it to about 4 million tons by the end of the decade, and that will keep pace with our hot rolling capacity when we are at 40 million tons of steel, we will have about 27 million tons of flat products. We think a 4 - 5 million ton tube business is a good footprint and downstream to support the upstream as well as add value to the upstream. The second big downstream business we have is the wires business, which is more linked to long products, where, again, we are the large player with more than 0.5 million tons and a strong market share in segments like the stranded wires and tire bead wires etc. There, again, we want to double it in the next few years, and that will also be aligned with the Neelachal expansion. The third one is the packaging or the tinplate business, where again, we are about 400,000 tons, and we want to take it to about 1 million tons. That will also support the flat products business because it is downstream of the flat products business. I'm talking only of India because we have a big packaging business in Europe as well. The last one is, of course, linked to Metaliks, which is a DI pipe business that is downstream for the pig iron that we make through the mini blast furnaces that we have in Tata Metaliks. There, again, we are a big player, and we aim to become about 1 million tons over the next year. These businesses, which have always traditionally added value. The EBITDA margins of downstream are lower than the typical steel business, but the ROIC tends to be higher because these businesses are run like that. And I think that's our ambition as far as downstream is concerned. There are many other smaller things that we do, but these are the 4 big ones.

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

We have some more questions on the bonds. I think we have either some bond investors or some banks on the call. This is in terms of the bond maturities for next year. Will you come offshore? Or will you look to do onshore financing instead?

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

I think it's premature to say that, but we would certainly first look at what we can do internally and the balance outside. But typically, we will first look at options and the India balance sheet in preference to anything offshore.

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

And I think the last question is on TSN. This is about, again, the performance in this quarter, and I think we mentioned about slabs etc. There are a few questions on how do we manage the slab inventory? Do we have a policy and what is approach towards managing the price risk for TSN as well as TSUK because they buy slab?

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

So normally, TSN, we don't buy slabs. It's just that we stocked up on slabs because we knew the blast furnace was going down, and we needed the slabs to take care of our customers and our orders. But otherwise, it is a fairly balanced facility. We make as much slabs as we can consume. And if there are extra slabs, we can always look at selling it, but we don't necessarily buy slabs in Netherlands. In the UK, also, we don't buy slabs. But going forward, depending on, as Koushik said, the outcome of the consultations and the way we plan the transition, we will decide what to do and when. But again, I repeat what Koushik and I have said, whatever we do, we will try to make sure that the business is run in a cash neutral or cash positive way.

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

There's one more question, I think, in terms of Tata tinplate. This essentially says that results have been poor at a time when the demand has been quite strong. Is there an excess supply of tinplate in the Indian market? And can you comment on the market position?

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

I think there are fundamentally two points. One is that the value addition, which is the gap between the hot rolled coil and tinplate has shrunk compared to the previous quarter significantly. The issue has been, there has been a lot of import of non-prime tinplate into India. And that has created a supply-demand imbalance [inaudible]. Hopefully, this will get reversed in the future. But we also see a certain amount of firming up of the value addition and improvement from the value addition that was there in the second quarter. The second quarter was really difficult because it suddenly shrunk. But as I said, it is not because of supply of prime tinplate from us and our peers, but it was more on the non-prime imports that came in.

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

I think that ends the questions we have. We will end the call now. Thank you very much, everybody, for joining us today, and I hope we were able to provide you all the clarifications you sought. And until the next call, thank you.

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

Thank you.

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

Thank you.