"JSW Steel Limited – 2Q FY2017 Earnings Conference Call"

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Speakers: **Seshagiri Rao MVS, Jt. Managing Director & Group CFO**
Dr. Vinod Nowal – Dy. Managing Director
Jayant Acharya, Director – Commercial & Marketing

Call host: **Kamlesh Bagmar – Prabhudas Lilladher (P) Ltd**

Moderator: Ladies and gentlemen, good day and welcome to the 2QFY17 Earnings Call of JSW Steel Limited hosted by Prabhudas Lilladher Private Limited. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. If you need assistance during the conference call please signal an operator by pressing '*' followed by '0' on your touchtone phone. Please note, that this conference is being recorded. I now hand the conference over to Kamlesh Bagmar from Prabhudas Lilladher Private Limited. Thank you and over to you.

Kamlesh Bagmar: Thanks Ray. On behalf of Prabhudas Lilladher I would like to welcome you all on the 2QFY17 Earnings Call of JSW Steel. I would also like to thank the management to give us an opportunity to host the call. Now, I will hand over the call to Pritesh for taking further the proceedings. Over to you Pritesh.

Pritesh Vinay: Thank you very much Kamlesh. A very good evening to all the participants who have dialed-in to discuss the 2QFY17 results of JSW Steel.

We have with us the senior management team of JSW Steel represented by Seshagiri Rao, the Joint Managing Director and Group CFO, Dr. Vinod Naval, the Deputy Managing Director, Jayant Acharya – Director Commercial and Marketing, and Rajiv Pai the CFO. We'll keep the usual format. I'll request Rao to start with a few minutes of opening remarks and we will get straight into Q&A. I would request all the participants to restrict their questions to 2 per participant in order to give a fair opportunity to everybody. So without much ado, over to Rao.

Seshagiri Rao: Good evening to everybody. Wish a very Happy Diwali and Season's Greetings to all of you. I welcome you for the briefing of 2QFY17 performance of JSW Steel. As you are all aware, the over-supply or supply glut in the steel industry continued even in the second quarter. The capacity utilization for the steel sector globally is around 70%. It has increased from July-August levels and it has reached 70%. The demand has not kept pace with that in spite of the massive Chinese stimulus. The Chinese stimulus has helped in some improvement in demand and increase in the prices. But if you look at the export numbers of China, Japan, Russia and Korea to the world, they are almost at the same level as that of last year and in fact they are slightly higher on annualized basis which indicates that the demand has not picked up meaningfully either in those countries or elsewhere in the world to absorb the excess supply. So on the one side the supply is going up, and on the other side demand is more or less stagnant; it has not picked up. So that is the global situation. As far as India is concerned, if you see the 2Q demand growth numbers by JPC, it is very difficult to believe that how far those numbers are right. As per JPC, the production for 2Q went up by over 10% and consumption went up by 7.7% on YoY basis. So, therefore, from these numbers, it can be presumed that the demand is picking up as far as India is concerned over 1Q even though we don't see that happening on the ground. Assuming those numbers are correct, if you analyze JSW Steel's performance for 2Q, I think it is commendable.

If you see, the production volume for the quarter was at 3.98 million tonnes which is a 22%YoY growth when Indian steel production went up by only 10.4%YoY. Similarly, if you look at sales, our volume was at 3.84 million tonnes which is a 20%YoY growth. NSR came down by 4% on sequential basis. You must have seen internationally prices softened in the month of July. So that had an impact in the domestic market. The domestic supply went up but the demand did not pick-up to that extent. There was a pressure in the domestic prices in the second quarter which we were guiding when we announced our 1Q results. Similarly, cost of production went up on sequential basis by 4%. The NMDC has increased iron ore prices in the 2Q. They have introduced differential pricing in Karnataka. With that there is an increase in iron ore prices. Coking coal also went up in 2Q as we guided in the 1Q results call. So during the quarter, our NSR dropped and cost of production went up. So, the EBIDTA per tonne has come down to Rs. 7,085 per ton as against Rs. 9,278 per ton in 1Q. So out of this drop of about Rs. 2,100 per ton - approximately Rs. 1,300 per ton is attributable to the NSR and balance is attributable to cost. Our overall EBIDTA grew by 58%YoY to Rs. 2,718 crores on standalone basis and the profit after tax was at Rs. 671 crores on standalone basis.

Our subsidiaries did well during the quarter, particularly the US Plate and Pipe Mill. There was a negative EBIDTA of $5 million in 1Q whereas it recorded a positive EBIDTA of $2,25,000 in 2Q. Similarly, JSW Coated, ARCL, Salav and JPOCL (which we acquired in the last quarter) also did well. With that our consolidated EBIDTA grew by 60%YoY to Rs. 2,959 crores. The profit after tax on a consolidated basis was at Rs. 726 crores. Our debt came down by Rs. 1,400 crores in this quarter sequentially. The net debt was at Rs. 43,937 crores and our cash balances were Rs. 1,963 crores at the end of 2Q.

Our acceptances on the revenue account were at $850mn at the end of the quarter. And the capital accounts acceptances came down significantly to $314mn. Our net debt to equity has improved, it is 2.15x. Our net debt to EBIDTA also improved to 4.82x. Our weighted average cost of debt came down to 7.59%. This is briefly about our results.

If you see the key developments, I would like to bring to your attention three points:

1. JSW Steel won an award in the innovation category, by the World Steel Association, for development of high strength automotive steel with speed and innovation. That is one good development which has happened in 2Q.
2. Similarly in the iron ore mines auctions in Karnataka, JSW has been declared as a preferred bidder for 5 mines. These 5 mines have total resources of ~111 million tonnes, and mineable reserves of ~93 million tonnes which can produce 4.66 million tonnes per year. We are planning to operationalize 2 mines by 31st March 2017. The two mines have a capacity of 0.71 million tonnes per year. Balance three mines of 3.95 MTPA will be made operational in 12 months or say by 31st December 2017. The total capital expenditure involved to develop these mines will be about Rs. 376 crores. Out of that Rs. 154 crores we will be spending in this year. Balance Rs. 222 crores we will be spending in the next year.
3. Some of the shareholders have suggested that there is no liquidity in the retail market and retail investors' participation is very limited because of very high prices. So, they have suggested that we should look for splitting of shares. So today our board, subject to shareholders and any other approvals, has approved the splitting of shares from face value of Rs. 10 to Re. 1 per share.

Another good development I would like to share with you, we were very relieved yesterday when we heard the Hon'ble Court's judgment that JSW Steel has been acquitted from the accusation of our involvement in the illegal mining in Karnataka and also the conspiracy with regard to getting some recommendations for iron ore mines from the earlier chief minister of Karnataka. The court has satisfied and has fully discharged JSW Steel from all those allegations. It is a very good development as there was very bad press which we had seen in the press earlier. That is why I would like to clarify this point.

Coming back to the outlook, I would like to highlight only one or two points:

1. The MIP (minimum import price) is continuing for 66 items up to 5th of December. If you observe the government initiatives, either there is an MIP or there is an anti-dumping duty and/or safeguard duty. At least one of them is coming into place before a product is removed from MIP. So, we expect that the balance items which are there today as a part of the list of 66 items, some more initiatives will come by way of anti-dumping. If they are not there, our request to the government is to extend the MIP further.

Even assuming MIP is there, we have analyzed the imports that are coming into India, 32% of the imports which have come in the first 6 months of this financial year for these MIP items, they are below the MIP price. So we have brought it to the attention of the government to monitor why these items are coming below the MIP price. Similarly there are certain categories of steel which are outside the purview of MIP or anti-dumping like tin plates, API grade, wires, non-grain oriented electrical steel, galvanized and galvannealed. There is a huge amount of increase, almost close to 30% increase, in imports of these items where there is enough capacity in India. So we are taking up the matter for appropriate remedial actions to moderate these imports.

2. Now going forward as far as 3Q and 4Q is concerned, we have given the guidance of 15.75 million tonnes of production and 15 million tonnes of sales for FY17. Whereas if you look at our performance up to first half, we are very close to our guidance. So we will be able to achieve the volumes guidance. However, cost pressures are increasing. Coking coal prices have tripled and iron ore prices are going up. Therefore cost pressure continues to be there even in 3Q and 4Q. We are taking several actions to achieve efficiencies and reduce our cost. But the kind of increases that have happened in these two key raw materials, it is not possible to absorb these costs unless they are passed on. We are also looking at how the international steel prices are going up. So in China we have seen a $35/t increase. In Europe we have seen Euro 60/t increase. In USA we have already seen $50/t increase. So we expect that we will definitely be able to pass a part of this cost increase to the customers in India. So in 3Q and 4Q, we are looking at better volumes and increasing our value added products and reducing our costs and manage the increase in cost of coking coal and raw materials. Thank you.

Moderator: Thank you. We will now begin the question and answer session. Anyone who wishes to ask a question may press "*" and "1" on their touchtone telephone. If you wish to remove yourself from the question queue you may press "*" and "2". Participants are requested to only use handsets while asking a question.

We will take the first question from the line of Ansuman Atri from Haitong Securities. Please go ahead. Ansuman Atri your line is in talk mode. Please go ahead with your question.

Ansuman Atri: Thank you for the opportunity and congratulations on the volumes. So my question is regarding iron ore sourcing in Karnataka. So given that the court has also approved NMDC to maintain this differential pricing, is it also impacting the sourcing from non-NMDC players in Karnataka? And what all measures can JSW take to lower their iron ore costing apart from this category C mines. And are there more mines which are coming for auction which will help JSW lower the cost?

Vinod Nowal: Regarding C-category mines, out of 7 auctioned we got 5 mines. So we will develop that. Hopefully two mines we will operate before March '17 and three will take say another 12 months time from today onwards. Regarding managing our requirement, so now hopefully next 6 months the availability of Karnataka will improve and we will manage with that. Regarding NMDC, NMDC continues to be a major iron ore player. So, whatever situation is there and whatever prices are there, we continue to buy from them as on today.

Ansuman Atri: Okay. Second question is regarding the margins. So how much hikes do we need to take as of now to get back to say we are on $120/t of EBIDTA, and what kind of cost we have already passed through to our customers who have 3 months' contracts?

Seshagiri Rao: The way in fact I explained about 2Q over 1Q that there is a reduction of margin by Rs. 2100 per tonne on sequential basis. Out of that Rs. 1300 was attributable to the drop in selling price. Balance Rs. 800 was on account of cost. Similarly going forward, as you know we generally keep the coking coal inventory close to 45 to 60 days . So whatever price increases that are happening right now let us say in the month of October, the actual impact of it will come in the second half of December or January month. The kind of increase, which has happened in the coking coal or in the iron ore, is very sharp and it has happened very quickly. So we expect the international as well as domestic steel prices to pick up by that time the increase in cost fully hit us. It is very difficult today to quantify and guide the cost increase that would eventually happen as we are also looking at how we will be able to reduce the impact of cost increase. Number one, is there any possibility of changing the mix of coal used for coke making? That is one which we are working on. Number two is, is it possible to increase our DRI production and reduce the blast furnace production? This is the second area where we will be able to reduce our cost. Are there any other efficiencies which we can bring in by way of more of PCI injection, more of pet coke usage? These are the areas where we are focusing. So when we are working on certain efficiencies options it is very difficult to say overall impact on cost would be that much. What we are trying to see is to work out with customers and also watch carefully how the international prices are moving. Based on that, we will take the calls on increase in prices.

Ansuman Atri: Okay sir, and just last question on demand. Are we seeing – which all segments are seeing improvement faster than expectation and where we are seeing that it is lagging behind? And are government initiatives translating into returns as of now?

Jayant Acharya: Yeah. So I think in certain sectors, where government spending we have seen, doing well is the road sector. The railway Capex has been in excess of the budget.

We are seeing that the spending on the renewable energy bearing fruit. Maybe certain other sectors which are consumer driven is something which is picking up which is automotive, which is the appliances side where we see a pick-up. As far as the infrastructure and construction is concerned, I think there we expect that post monsoon the activity would pick up. It has been sluggish till now. So there we expect more activity in H2.

Moderator: Thank you. We have the next question from the line of Neil Gupte from JP Morgan. Please go ahead.

Pinakin Parekh: Yeah thanks sir, this is Pinakin Parekh from JP Morgan India. Sir, just two quick questions. First, can you give us a sense of how the landed cost of iron ore from these 5 mines won in auction compare vis-à-vis the landed cost of NMDC's iron ore? I mean we are just trying to understand the sense of cost savings that we can see. And secondly what kind of price hikes have we seen in the last couple of months and how would prices compare today vis-à-vis the average pricing of the quarter?

Seshagiri Rao: The iron ore pricing side, NMDC as I mentioned to you, one is differential pricing which is over Rs. 500 per tonne between Chhattisgarh and Karnataka. That is one. Number two is the category C mines which we have got in the auction, if I take the weighted average of the premiums which we have to pay for all the 5 mines together assuming that simultaneously all 5 will work, then it works out to 90% of the market price at the relevant time. That means 10% that is left out to us to meet the cost of mining. So with that we are almost paying equal to the market price as regards to Karnataka. Whatever price that would be prevailing in Karnataka we will be paying that assuming we will get iron ore from these 5 mines. So there won't be any savings related to that. But there will be substantial savings if you compare this price vis-à-vis either imported cost or vis-à-vis getting from Orissa, there will be substantial reduction in the cost related to that.

Pinakin Parekh: Understood.

Jayant Acharya: So on the price side, we have taken a price increase in the month of October which has been in the vicinity of about Rs. 1500 per tonne. It varies a little across product lines. The quarterly prices are under negotiation for the quarter October-December and beyond. And we are finalizing our strategy because the coking coal has been moving very rapidly. So we are discussing with customers and we will take it forward.

Pinakin Parekh: So Rs. 1500 per tonne over the last couple of months; that will take – that will reverse the entire price decline seen in the September quarter?

Jayant Acharya: No, no I will just repeat. Rs. 1500 is for the month of October. Since July-September results are already out whatever we have increased in July-September is already captured. In the month of October the increase is Rs. 1500 over the month of September. The monthly prices of November, December will play out and I think we will be taking a decision soon on the monthly prices of November. Meanwhile we are discussing the quarterly and half yearly contract prices with various customers and we are watching the coking coal and discussing the way forward with them to finalize those numbers. And the October-December and October-March prices contractual are also due for negotiation now.

Moderator: Thank you. The next question is from the line of Sumangal Nevatia from Macquarie. Please go ahead.

Sumangal Nevatia: Yeah good evening, couple of questions. One with regards to anti-dumping duty, by when is the final duty expected to be announced and given a chance that coking coal prices have increased sharply, is there a case where the HRC anti-dumping price of $474 be revised upwards?

Jayant Acharya: So usually the final duties are levied within 6 months of the provisional duty. So the provisional duties are valid for 6 months. So we expect that the anti-dumping duties for each of them, the final ones will be there before that. As far as reflecting the cost, the new cost in the anti-dumping number is concerned, usually the anti-dumping relates to a period of investigation, which in this case pertains to July-December 2015 and therefore the prices and costs are calculated in relation to that. But the final duty determination is expected soon and we would know more details when it is coming out. Hello?

Moderator: The line seems to have dropped. We will move to the next question. Now the next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.

Bhavin Chheda: Yeah good evening sir. Sir, again on the coking coal since that's a disturbing subject. Yeah, so historically we have seen that you have been using different grades of coal. If I remember basically in Corex you can pump in more of semi-soft and PCI coal. Whereas in blast furnace you mainly use premium coal and the PCI grade coal. So if you could give us some mix which would help us understand what kind of benefit JSW Steel as a company has over peers because you have been using different grades of coal? Because I believe the premium coal prices have gone up substantially whereas semi-soft and PCI, the proportionate increases have been much lesser than the premium grade coal.

Seshagiri Rao: Yeah Bhavin you are correct that for instance Corex if you take, every month we produce 65 to 70 thousand tonnes of hot metal from each of the Corex furnaces. We have two furnaces. So there coke used is only 15%. Balance 85% is inferior quality of coking coal of which costs have not gone up that much like hard coking coal. So there the impact will not be there. You are correct in that. Similarly for the balance blast furnaces which we have, there is almost close to 100 to 130 kg injection of PCI. So there again the cost increase is not so sharp. We can look at to increase PCI injection. Then as far as the coke production is concerned, for producing one tonne of coke, we use different types of grades of coal. Generally we use 60% hard coking coal and 30% to 35% semi-hard, and 5-10% others grades/types. There again it is possible to reduce hard coking coal from 60%, maybe 50%-55%. We can increase semi-hard or other inferior grades. It is possible to do that. So that is why I mentioned to you it is not just one calculation that the coal prices went up let us say $100 to $200. So $100 multiplied by the coal consumption per tonne of steel will not give the increase in cost. As we are working on to change these mixes and also to bring in pet coke and increase the pet coke usage.

Bhavin Chheda: Sorry sir, so pet coke you will be directly charging in the blast furnaces?

Seshagiri Rao: No. It is used in the manufacturing of coke.

Bhavin Chheda: In the coke oven batteries?

Seshagiri Rao: Yeah.

Bhavin Chheda: Okay, okay. Because as of now I don't think anyone is doing that right?

Seshagiri Rao: People are doing. It is not that we are only doing. But we can do. We are first in that.

Bhavin Chheda: Okay. Sir second question I was just seeing the European data for the last couple of years and the impact of various anti-dumping duties mainly on China and Russia, and the data I saw is that last year when they imposed the CR duty on China and Russia, Indian exports have increased substantially of the cold rolled from India to Europe. So, Indian players have been increasing market share in Europe. So have you seen that data and has your cold rolled exports to Europe increased? This is my question number one. And second, recently they have increased – they have put duty anti-dumping on plate and HR on China and the investigations are on for Russia. So can we expect a plate and HR exports from India into Europe is China and Russia is covered?

Jayant Acharya: So yeah you are right, Europe has put certain duties on various products and China and Russia and some of the other countries have been the target. India has not been anti-dumped in these products from Europe. I would say that while it may offer us an opportunity to maybe replace Chinese cold rolled or Russian hot rolled, India as a country and we JSW as a supplier would cautiously move our volumes in exports keeping in mind that we would like to be responsible in terms of our foot print in Europe. While it gives us an opportunity but we would still be going cautious in terms of our volumes.

Bhavin Chheda: And the price is still not that remunerative?

Jayant Acharya: So let me put it the other way also that you know we as a supplier of products into the international market, we are basically covering 90 to 100 countries worldwide. So we are not limiting ourselves to basically one big region. So we are trying to cover cold rolled across various parts of the world, and similarly with other value added products. So from perspective of cold rolled whether it gives us a better realization compared to hot rolled, yes it does. So therefore we are trying to export more of cold rolled as well. You would have seen that in our value added numbers where our exports of value added steel has gone up by 67% in 2Q.

Moderator: Thank you. The next question is from the line of Ashish Kejriwal from Elara Capital. Please go ahead.

Ashish Kejriwal: Yeah thanks a lot. Sir two questions. One is obviously on coking coal, if you could help us with our mix in coking coal contracts? I mean our monthly and quarterly contracts. And what could be the average cost for second quarter?

Seshagiri Rao: Ashish we are doing based on index pricing. Index pricing is average of the monthly index. Those indexes also we take average of the two that is TSI and Platts index. That is what we are following right now.

Ashish Kejriwal: So we don't do the quarterly contract which normally the other producers do?

Seshagiri Rao: No. we are not doing this. We have changed long back.

Ashish Kejriwal: Okay. And sir secondly as far as volume is concerned, if you are maintaining a full year guidance of 15 million tonnes, which means roughly in the second half the run rate should be similar to what we have done in the second quarter, so are we looking at maintaining our exports volume of approximately a million tonnes in next half also? Or going forward we will be focusing again on the domestic because domestic market may grow in second half?

Jayant Acharya: So usually as you have seen historically, the second half is always better than the first half. So we do expect now post monsoon, the demand in India to pick up as well. As Mr. Rao was explaining in the beginning that the 2Q data from JPC shows that consumption was higher, although some of that could be due to inventory stocking. But for sure H2 will be much better. So therefore we will judiciously monitor our domestic to export ratio as we go into H2 and then take our calls accordingly.

Ashish Kejriwal: So my only question is whether there is a chance to increase our volume number guidance in FY '17.

Jayant Acharya: We would maintain our volume guidance which we have given for sales at 15 million tonnes and production at 15.75 million tonnes. Those should be achievable.

Ashish Kejriwal: Sir the reason being asked is that if we maintain our sales volume, exports sales volume, and in India domestic sales volume is going to increase, then we could easily surpass our 15 million tonnes if we are able to produce that. So some sense on that.

Seshagiri Rao: As far as domestic market is concerned, the growth in crude steel which has happened in the H1, growth is 7.5% as per JPC number. Consumption is 3.6%. So, more and more production is happening but the demand is not keeping pace at the same level. However, JSW Steel is in a better position to export. The only strategy or philosophy for exports which we follow is that there is a base export and that is 10-12% of our total volumes. The base exports will continue to happen. Balance is swing exports. Based on domestic demand, export prices where we are selling in the domestic market will continue to increase exports or sell in the domestic market. This is an opportunistic export. So therefore whether we maintain a 26% or not is a question which is a dynamics of the market that would determine our exports. So, 10-12% is base. And balance is swing, it may happen, it may not happen.

Seshagiri Rao: Thank you. The next question is from the line of Ravi Shankar from Credit Suisse. Please go ahead.

Ravi Shankar: Yeah good evening sir, two questions. One is on like to like basis what is the difference between export realizations and domestic at present? And the second is more on the market intelligence front. Have you seen more of sponge iron production going up given that coking coal prices have rallied? I know there is an element of doubt on whatever JPC data capture. So, just wanted to get your thoughts on the same.

Seshagiri Rao: The realizations in the export and domestic market, I think quarter one export realizations were better than domestic. Whereas in the quarter two the export prices are lower by approximately Rs. 800-1000 per tonne. That is the situation, it goes on changing. It is very difficult to say that which one is better as it varies on day to day basis.

Jayant Acharya: Yeah so I think we have seen that sponge iron and scrap based production has increased. There has been some activity in the secondary side which I think has gone up because that becomes more competitive to some extent. So we will see how it goes further. It will mostly affect the secondary sector which is the long product side. The competitiveness of the secondary sector will increase. However we note that the construction activity in general picks up post monsoon and therefore the demand for the long product, especially used in construction sector, goes up. And in general the prices of those products move up in line with that. So we will see how the products behaves post Diwali.

Ravi Shankar: Back to the first question, then after the October price hike, then the difference between export prices and domestic realizations would be even higher. So now you would have almost a Rs. 2500 per tonne gap. Is that right to assume on spot basis?

Jayant Acharya: Not necessarily. See what happens is that if you see historically from 2013 to 2016, usually when the coking coal prices have gone up, international prices have reflected that in the steel prices. So the steel prices usually are reflective of a higher coking coal prices. So we will see international prices also moving up. So I won't say that steel prices in export market will be very different. But we will continue to monitor the difference between the two, we will continue to monitor the demand in the domestic market and take our calls accordingly.

Seshagiri Rao: Thank you. The next question is from the line of Amit Dixit from Edelweiss Securities. Please go ahead.

Amit Dixit: What is the reason, why the tax rate in 2Q FY '17 is higher at consolidated level according to us it is around 41.8%? So what would be the guidance for the full year? And the second question is regarding the debt maturity profile. How much debt we have to repay for in FY '17 and FY '18?

Seshagiri Rao: The tax rate has gone up because of the reversal of some deferred tax assets recognized in the last year. If you recall, we had made provisions for impairment of overseas investments over Rs. 5,000 crores in 3Q of last financial year. When we had made those provisions we had identified how much is towards equity, how much is towards preference shares and how much is towards debt. Under these three elements, we had distributed that Rs. 5,000 crores. As far as the equity and preference shares provisions are concerned, they are not available for tax deductions in India. Whereas loan provisions are tax deductible. Accordingly we recognized the deferred tax assets in the last year. However, when we actually approached for necessary clearances from the Reserve Bank of India, the allocation underwent a change. That is less allocation towards loans, more towards preference shares. With that tax deduction amount has come down. Thereby the deferred tax asset to the extent of Rs. 180 crores, which we recognized in the last year, is getting reversed in 4 equal quarterly installments. It was not provided in 1Q. So for two quarters together close to Rs. 90 crores has come in here in this quarter as extra deferred tax provisions due to reversal of deferred tax assets provided in the last year. That is why tax rate has gone up. So going forward, it will be in the range of 30-33%.

Amit Dixit: Okay sir, thank you. And on the debt maturity profile for next 2 years, FY '17 and FY '18?

Seshagiri Rao: Rs. 4,700 crores is the repayments due for FY '18. Rs. 2000 crores is the balance that is to be repaid in the H2 of this financial year.

Seshagiri Rao: Thank you. The next question is from the line of Ritesh Shah from Investec Capital. Please go ahead.

Ritesh Shah: Hi sir. Thanks for the opportunity. Sir my first question is you made an interesting remark, around 32% of the imports in the first half came below MIP price. So that is sir how is it possible? And secondly Jayant sir made a remark about change in MIP or non-injury price or reference prices and given the case of investigation was last December. So sir if you could please provide some colour on these two aspects.

Seshagiri Rao: So anything coming below MIP price raises eyebrows, why it is coming in. But if we look at the exemptions that have been provided. Anybody, exporting steel items from India, can import under advance license. So it can come below MIP price in this case. Other than that we do not envisage a case where it can come below MIP. At least when it was in the month of April and May we could say LCs must have been opened earlier. But that question does not arise now. Therefore this has to be looked at. Even we are concerned about this as 32% imports are coming in below the MIP.

Jayant Acharya: The second question Ritesh was with respect to your anti-dumping duty right?

Ritesh Shah: Yes sir.

Jayant Acharya: So usually what happens is that the anti-dumping data which is given is for a period of investigation where both prices and costs are studied and then a decision taken. So the final determination of anti-dumping duties usually takes into account those data during the period of investigation. However certain references of the current impact may be taken but we will have to wait for the final duty determination to understand how the authorities will view the current situation.

Ritesh Shah: Sir my question is the cost would have changed completely from July to December to the things what are right now.

Jayant Acharya: Yeah.

Ritesh Shah: So is it something that the government is open to and even relook at the reference prices?

Jayant Acharya: So anti-dumping doesn't really provide that you have to do only reference price mechanism. You can have a fixed duty. You can have an ad valorem percentage duty as well. At the final stage of determination of the duties, these decisions will be taken whether it will be any of those, keeping in mind the current situation also we will take a – we will be discussing with the government as well. And then we will see how that comes.

Ritesh Shah: Great sir. That helps. Sir my second question is when we talk about our volumes, what percentage of it are sold on monthly basis, quarterly basis. And the second question related is of the 66 MIP products what are there right now, that would constitute what percentage of our sales volumes?

Jayant Acharya: The 66 products basically are pertaining to bars and rods, galvanized, wire rods and colour coated. These are mainly the items which are there in this. So, these 66 lines constituted 27% of the total imports into India during H1.

Ritesh Shah: Okay, okay. And sir my second question is on the percentage of our volumes sold on spot basis versus monthly basis and quarterly basis.

Jayant Acharya: So typically for let's say the automotive side the customers are mostly on quarterly or half yearly pricing. So and there are certain customers who would be in the projects or contracts which are of fixed nature. So it would vary between 25-30%.

Ritesh Shah: So 30% would be quarterly or half yearly. Would the reading be correct?

Jayant Acharya: Yeah quarterly or half yearly.

Moderator: Thank you. We have the next question from the line of Saumil Mehta from BNP Paribas. Please go ahead.

Saumil Mehta: Yeah I just had two questions. First is on the average price hikes what you told for the month of October was about 1000 or 1500?

Jayant Acharya: Rs. 1500 per tonne for the month of October.

Saumil Mehta: Okay. And what would have been that for August and September? Because the 2Q would be an average of 3 months and that would have changed. So if you can give me specifically for September.

Jayant Acharya: Because see even for the month of October what I am giving you is basically mostly in the flats. But September and October whatever increase have happened has already been captured in the quarter results of 2Q.

Saumil Mehta: So for the basket as a whole for flat, what would be the spot prices over the 2Q average what you have?

Jayant Acharya: It's a little difficult to say. As I was explaining last time that to another question that we are also negotiating now the quarterly and half yearly contracts for October to March. So the basket would accordingly change depending on the amount we are able to negotiate and finalize with them. So it is difficult to give a guidance on that. But Rs. 1500 in flats is what we increased in the month of October. As far as November is concerned we are deliberating and will be going to the market with a price increase in November monthly. And quarterly and half yearly are under discussions.

Saumil Mehta: Okay and for the 2Q would it be fair to assume that the second half of 2Q would have higher prices over first half?

Jayant Acharya: Yes.

Moderator: Thank you. Our next question is from the line of Abhisar Jain from Centrum Broking. Please go head.

Abhisar Jain: Yeah hi sir if you can just mention the 2Q coking coal average cost that we had seen?

Seshagiri Rao: Coking coal average C&F cost for us was $103 per tonne.

Abhisar Jain: And sir in terms of the iron ore? Because there were some hikes and differential pricing by NMDC. So in that also sequentially if you can just mention the quantum of increase that we had seen?

Seshagiri Rao: Quantum of increase of NMDC?

Abhisar Jain: Sir overall iron ore for you should also do.

Seshagiri Rao: NMDC increased the prices by Rs. 300 per tonne which you are aware. So as I mentioned to you over and above there is a differential pricing of Rs. 500 to Rs. 550 per tonne in the state of Karnataka. So we have different sources. It is very difficult to say that what is our weighted average and which goes on changing.

Abhisar Jain: Okay, okay sir. And sir in terms of the Capex cost and the balance sheet deleveraging, you know if you can just reiterate what is the stance at the current point of time. And is there any change in plans there?

Seshagiri Rao: So Capex we have already guided that Rs. 4,300 crores we will be spending in this year. If you look at first half we have spent Rs. 2,042 crores on the cash flow basis. We have also stated in the beginning of the year that we want to bring down our debt to Rs. 40, 000 plus Rs. 2,700 crores (related to Ind-AS impact). That is the kind of guidance we have given which we will achieve by end of the year. So we are in that course. We already reduced it by Rs. 1,418 crores. As on 30th September, we had net debt of Rs. 43,937 including Ind-AS impact. So we have to reduce it by another Rs. 1,100-1,150 crores by the end of this year.

Moderator: Thank you. Our next question is from the line of Ashish Jain from Morgan Stanley. Please go ahead.

Ashish Jain: Hi sir. Sir this Capex guidance of 43 billion does not include the Capex pertaining to the mines that we've acquired now I believe.

Seshagiri Rao: No, we have already provided Rs. 141 crores for mines as a part of Rs 4,300 crores,.

Ashish Jain: Okay it's only part of that number, okay.

Seshagiri Rao: Yes, it is part of that number.

Ashish Jain: And sir secondly just again going back to the point on pricing, just to ask the number, September month prices how much were they higher versus the average for the quarter using the same benchmark that you are using to give the Rs. 1500 increase in October?

Jayant Acharya: So September we had taken a price increase for some of the flat products but it was differing across segments. So I would say that that has already been captured in your 2Q results. As far as October is concerned it was Rs. 1,500 per tonne.

Ashish Jain: Okay, okay. And sir just last question is on coking coal. So you said that the current prices that are prevailing that impact will show in December month. But currently what is the price which is showing in our cost on the coking coal side? Currently is it like 130-140 kind of number or is it higher or lower than that?

Seshagiri Rao: It is based on index price. There is weighted average of let us say August month that will be in October. We don't have right now the number; however, that is how it will impact us.

Ashish Jain: Okay got it sir. That is very resourceful, thank you so much.

Moderator: Thank you. The next question is from the line of Palak Shah from Canara Robeco Asset Management Company. Before we take that question we'd like to remind participants that due to time constraints we would be able to take the last two questions. Palak Shah from Canara Robeco Asset Management Company please go ahead with your questions.

Palak Shah: Thank you very much for the question, for allowing me to ask the question. I just wanted one question from after winning the mines from Karnataka, which would you want to replace? Acquiring/procuring from NMDC or replacing the import of iron ore?

Vinod Nowal: The 5 mines, which we have got in Karnataka, will give us almost 4.6 million tonnes per year. So that will help us to actually reduce our total input cost of iron ore. And then we are trying for some new further mines also.

Overall sourcing would depend on the prices movements, if outside iron ore becomes more expensive than our own then we will not buy it. We will use ours. We will definitely prefer cheaper one.

Palak Shah: So my question is would you be replacing the imported iron ore or from NMDC because…

Seshagiri Rao: Orissa and imports definitely we will avoid, actually.

Pritesh Vinay: We will take the last question please.

Moderator: Sure. The last question is from the line of Bhaskar Basu from Jefferies. Please go ahead. The line from Bhaskar has dropped. We will move to the next question. We will take the last question from the line of Pallav Agarwal from Antique Stock Broking. Please go ahead.

Pallav Agarwal: Yeah good evening sir. Sir just wanted to check on these media reports on this potential acquisition of Ilva Steel. So is there any truth to those or are those more of speculation in the media?

Seshagiri Rao: So as we have mentioned earlier about Corus where we were doing exploratory due diligence, even in this case we are doing due diligence. Just to explore whether there is any synergies or whether there is anything which will be advantage to JSW Steel. So that our due diligence is being carried out as far as Ilva is concerned.

Pallav Agarwal: Okay sir. And if I could just ask a follow up question.

Seshagiri Rao: Yes.

Pallav Agarwal: So if I look at the mix in this quarter the semis has gone up quite significantly in the half year. So is that also pulling down our realizations because the higher mix of semis is the product mix?

Jayant Acharya: Yeah, to some extent we have increased the semis volume. As the bar mill at Dolvi is stabilizing, and the monsoon of July-September wanes, I think the billets will be converted to TMT. So we would see lesser semis going forward in the sales.

Pallav Agarwal: So that should probably help your overall realization?

Jayant Acharya: Yes, that will help.

Moderator: Thank you very much. That was the last question ladies and gentlemen I would now like to hand the conference back to the management for any closing comments.

Seshagiri Rao: So thank you very much. Only one point I would like to highlight at the end is that we will achieve our volumes, whatever guidance we have given. As regards to increase in the cost, we are working on various alternatives to achieve efficiencies or change mixes and then reduce our costs as much as possible and preserve the margins. That is what we are working on. The third is that the TMT production ramp up is happening at Dolvi. And at the same time the demand for TMT products is picking up. So both together we will have more upside in terms of volumes from the Dolvi in the second half of this financial year. So with that I wish you once again all of you Happy Diwali and Season's Greetings. Thank you.

Moderator: Thank you very much. On behalf of Prabhudas Lilladher that concludes this conference. Thank you for joining us ladies and gentlemen and you may now disconnect your lines.