“JSW Steel Limited -3QFY13 Earnings Conference Call”

January 28, 2013, 3.00pm (India Time, UTC/GMT +5.30 hours)

Speakers: **Mr. Seshagiri Rao, Jt. MD & Group CFO**
Mr. Jayant Acharya, Director – Commercial & Marketing
Mr. Rajeev Pai, CFO
Mr. Pritesh Vinay, VP – Capital Markets & Group Investor Relations

Call host: **Mr. Nick Paulson Ellis, Espirito Santo Securities**

Moderator: A very good afternoon, ladies and gentlemen. I am Souradip Sarkar, the moderator for this call. Thank you for joining Espirito Santo for this call on JSW Steel’s 3QFY13 Earnings Conference Call. For the duration of presentation, all participants’ lines will be in listening-only mode, and we will have a Q&A session after the presentation. I would like to now hand over the conference to Mr. Nick Paulson Ellis who will introduce the JSW Steel Management. Over to you, sir.

Nick Paulson Ellis: Good afternoon, everyone, and thank you for dialling in. Apologies for a slight delay. We are just waiting for confirmation from the exchange on the results. I am Nick Paulson Ellis from Espirito Santo. It’s our pleasure to host JSW Steel Management the Q3 earnings call and business update. I will hand over the call to Mr. Pritesh Vinay and he will introduce the management team and then we will start the call. Over to you, Mr. Vinay.

Pritesh Vinay: Thank you, Nick, thank you very much. A very good afternoon, ladies and gentlemen. This is Pritesh Vinay from JSW Steel. I welcome you to discuss our 3QFY13 results. Apologies for the delay here due to a technical glitch in getting confirmation from the stock exchanges. I have the senior management team of JSW Steel here today, who will help walk us through the results, Mr. Seshagiri Rao, the Joint Managing Director and Group CFO; Dr. Vinod Nowal, Director and CEO; Mr. Jayant Acharya, Director Commercial & Marketing; and Mr. Rajeev Pai, the CFO. I would now like to hand over the call to Mr. Rao for his opening remarks.

Seshagiri Rao: Good afternoon, I am Seshagiri Rao here. I welcome you all for the briefing session on the third quarter results of JSW Steel for the year ending March 2013. This is only standalone results. We could not give the consolidated results this time because JSW Ispat results finalization got delayed. Well, one of our offices which was located in Mumbai, they got damaged in the last quarter, so due to which they could not finalise their results in time. So that is why we are declaring right now the standalone results. And the consolidated results will be given by 15th of February 2013.

As you are aware, the quarter just ended was a challenging quarter, very volatile raw material prices. We have seen iron ore coming down from a peak of $150 to $89. Again in a matter of few weeks we have seen that peak to $159 per ton. So very, very challenging environment**.** And at the same time we were seeing falling steel prices in the international markets. Domestically, the challenge continued as regards to availability of iron ore, not only in Karnataka, even across India, Orissa putting restrictions on movement of iron ore outside Orissa. And also within Karnataka, it accentuated further as there was a delay in auctioning of iron ore from category 'A' mines. And some of the mines, which we expected that they would start mining, also got delayed. So, iron ore availability was a greater challenge in the last quarter, which impacted our production by almost 20% in the last quarter.

So in this challenging environment, if you really see the performance of JSW Steel in that context, we have shown very impressive growth in volumes. Our volume of production went up by 8% and the sales went up by 14%, sales volume. Cumulatively for the first nine months the volume growth was 20% in production and 17% in sales. So the company could show very good volume growth in spite of challenges in terms of availability of iron ore, volatile prices and domestic demand being not very robust and the threat of imports from FTA countries like Japan and Korea where imports are growing quarter-after-quarter. So these are the challenges we had faced in the last quarter.

But at the same time it is a mixed bag. If I see there are positive sentiments which are coming back due to various reform measures the Government of India has taken, which have been announced. So it is now looking like Indian economy is bottomed out and we are seeing signs of improvement in this quarter, particularly where Reserve Bank of India is likely to reduce interest rates in the Credit Policy tomorrow. So that should stimulate interest rate sensitive sectors, which results into very strong demand for steel in India. So with this, I will hand over the mike to my colleague, Jayant Acharya, to take you through our quarterly performance. Thank you.

Jayant Acharya: Good afternoon, ladies and gentleman. I am going to take you through the section on business environment. If you look at the first slide, slide number three, the global economic condition appears to have bottomed out. There is a partial resolution to the fiscal cliff issue. We are seeing positive economic indicators from US - PMI is up, inventory index is down, industrial production numbers are better, auto sales have moved up, retail is up, new home sales have gone up; a lot of positives emanating from the US market. On the Europe side, the risk of EU break up has receded although the economy continues to be fragile. From Japan, the recent fiscal and monetary policy measures have created a positive outlook. Fiscal stimulus packages including the asset purchase, Bank of Japan doubling the target of inflation to 2% is expected to have a positive impact on the economic recovery in Japan.

On the Chinese side too, we are seeing an improvement - quarter four, 2012 GDP at plus 7.9% from preceding quarter at 7.4%. The economic driver of investment, industrial growth and exports in China appear to be steady. The fixed-asset investments have grown up 48% in 2012 as a percentage of GDP, not -- yeah -- and private consumption it's at about 40% of GDP. Fiscal deficits and inflation are under control, and we see domestic demand. We also feel that there is going to be varied phase of growth across the markets finally due to trade rebalancing which is happening, like the energy trade rebalance which is happening now post the shale gas advent in US. Some of the Chinese exports make it refocused to domestic, which again may have some impact on the trade. So there is going to be varied phase of growth across the markets.

But on a conclusion basis, we feel that US is positive, Japan outlook seems to have improved, Chinese outlook is better. So in general, the global economic growth projected at 3.5%, 2013, seems to be something which is doable.

If you look at the Indian economy, the Indian economy, the worst seems to be over. We can see business sentiments improving with the policy reform steps which the Government of India has taken. A stable policy environment, reduced fiscal deficit and current account deficit, a positive sentiment on the stock market is expected to improve the access to capital also for private companies. The steps taken to reduce current account deficits like the de-control of petrol and diesel prices, duty on gold imports, duty on palm oil are all positives to reign in the current account deficit.

The inflation, WIP inflation, has also fallen for the third successive month. The core inflation is below 4.5%, so there could be a possible rate cut by RBI. However, measures to contain the twin deficit in the forthcoming budget would be key. If you look at the next slide, slide number 5 on the global steel scenario, the world steel production at 1548 million tons was up by 1.2%, 18 million tons is an absolute number. But mainly the growth came in from China, America and Russia while we saw contraction in Europe and South America. The capacity utilization continued to be below 75%. Uncertainty of demand also reflected in the Chinese monthly production coming down from 60 million ton levels to 57 million tons odd in December. Uncertainty also results in destocking and reduced inventory at customer’s end.

The apparent steel consumption is expected to be at about 1409 million tons, which is up 2.1%. On the back of falling raw material prices, like iron ore as Mr. Rao just explained and coking coal, have been also dropped from a peak of 220 to spot levels of 145 and then again having moved up. We saw steel prices also dropping across regions in the vicinity of up to 5%, and the prices have again started inching up in the last few weeks internationally on improving raw material prices globally. So in the year 2013 we see that the global steel demand will improve on the back of various economic measures which have been announced.

If you look at the Chinese side as we discussed in the first slide, there are a lot of positive sentiments emanating; economic data is improving, industrial production has grown by 10% plus, retail sales are up, auto sales are up, fixed-asset investment remains steady, PMI is positive. So we saw crude steel production growth of 3.1% in China. They produced about 717 million tons, which was up by 22 million odd tons vis-à-vis last year. The consumption is estimated to be at about 639 million, which is up 15 million tons. And the net export at 42 million, which is up plus 11 million tons. So, the inventory to finished steel consumption is low.

We also are seeing the sectors which are consuming steel continues to be quite steady, like fixed-asset investments continues to be the largest consumer of steel, and we saw 67% going into the non-residential sector and 25% into the residential sector of fixed-asset investments. Household consumption grew by about 8% and the domestic demand is expected to grow, we expected residential side to grow on various schemes which have been announced, affordable housing and urban development. So the economic stabilisation in China is in progress.

If you look at the next slide, slide number 7, on the raw material side, we have seen raw material volatility in the year 2012. Iron ore dropping from 150 to 88 and inching up again to 159, and now again retracting below 150. Hard coking coals moving from 220 to 145, again crossing 165, hard coking coal contracts have been settled between $160-165 for January-March 2013.

But the spot prices have marginally moved up in the month of January and we expect that an increased supply -- we expect an increased supply of about 15 million tons in coking coal primarily from Mongolia which is contributing about six million odd tons, and majorly the balance coming from Mozambique, Australia and Canada. So we estimate the range of coking coal prices to be range bound between $160 to $170 and iron ore to be range bound between $120-130 in 2013. So the raw material prices are likely to be less volatile in 2013.

If you look at the Indian steel scenario in the next slide, the Indian steel demand posed challenges in quarter three. We had a sluggish demand scenario and a tight liquidity situation. The apparent steel consumption grew by about 4.4% in April to December. But on quarter-on-quarter growth, there has been a deceleration. Economic uncertainty, declining investments, fall in consumption in some of the areas like auto, consumer durable did impact the steel demand during the last quarter. Finished steel production grew at 3.6%, imports went up 16%, and out of the incremental quantity of 800,000 tonnes of imports which came in the nine months, about 66% was accounted for from FTA countries like Japan and Korea, which remains an area of concern. Exports went up by 24% to 3.8 million odd tonnes. And we are hopeful that with the steps which the government has initiated on policy reforms, structural reforms, the demand in steel in India will grow in the coming period.

On the Karnataka iron ore update and the projects update, I will request Dr. Nowal to take you through these slides.

Dr. Vinod Nowal: Good afternoon. This is slide number 9 on Karnataka iron ore update. On approval of R&R by the CEC, six mines with the capacity of 3.3 million tonnes have resumed operations and hopefully it will be available for use by month of Feb to the industry. These mines have produced so far 0.7 million.

Another four mines which are at the various stages of approvals, we are expecting these will in operation in the month of Feb and March, 2013.

The B category mines are in the plans, R&R approved for 20 mines. Out of 12 mines are ready anytime once they get the direction from the Supreme Court, they may start the operations. So that’s the update.

We have taken the shutdown of Corex-II in quarter three, and re-commissioned on 15th of January 2013 after the 90 days shut down.

Second, we have taken the major shut down of CGL-1 at Vasind to add the online skin pass line facilities on that, which will cater to appliance grade products and it has re-commenced operation on January 1st, 2013.

Value added flat steel projects – coated products capacity enhancement at downstream facilities at Vasind and Tarapur from 0.925 million tons to 1.25 million tons, new Cold Roll Mill of 2.3 million tons at Vijanagar, non-grain oriented electrical steel facility of 0.2 million tons at Vijanagar. All these projects to take share of the value products portfolio to 40-50% of the overall capacity over next two years' time.

The key highlights of the operational of quarter three – crude steel production 2.09 million tonnes, 8% increase year-on-year; saleable steel sales 0.17 million tonnes, 14% increase year-on-year; net sales Rs. 8,275 crores, 5% year-on-year increase; operating EBIDTA Rs. 1,314 crores, 5% increase on year-on-year; PAT Rs. 137 crores, because of inferior quality of iron ore with low Fe, high alumina and manganese impacting productivity by 20%.

The JSW steel and JSW Ispat merger update – the scheme of merger has been approved by the Competition Commission of India; NSE and BSE. The court convened meeting of equity and preference shareholders of both the companies to be held on January 30th, 2013.

New products approvals – steel for streering knuckles front, axle beam and axle hub, steel for high pressure boilers application, cold rolled low carbon EDD steel for PV exposed panels, cold rolled high strength steel for PV structural and safety applications and cold rolled low carbon bake hardened steel for the three wheelers.

Production quarter three – 2.09 million tonnes, 8% increase year-on-year from 1.94 of quarter three of 2012 and minus 4% of quarter two of 2013. Rolled flat increase is 13%, 1.57 of quarter three ’13, and if you compare with quarter three of 2012, 1.39; 8% increase from quarter second of 2013. The rolled long 31% increase 0.48 from 0.37 of quarter ’12 year-on-year, 31% increase. Production for nine months 20% increase, 6.41 percent from 5.36 of nine months of 2012 in crude steel and flat product 20% increase from 3.87 of nine months ’12 to 4.63 of nine months ’13. Rolled long – 29% increase year-on-year from nine months of ’12, 1.06 to 1.36 of nine months, 2013.

Saleable steel 2013 – 2.17 million; 14% increase year-on-year of quarter three of 2012, 1.9 million tonnes, and the same of quarter two of ’13; 2.17. Rolled flat- 1.66 million from quarter three of ’12, 1.44 year-on-year 15% increase and it was the same in quarter two of ’13, 1.66. Rolled long – 0.43 million of quarter three ’13 at 18% increase year-on-year of quarter three of ’12 was 0.36 million tonnes, and 6% increase, 0.4 million, if you compare with the quarter two of ’13.

Value added products – 0.37 million and quarter three of ’12 was 0.41 and quarter two of ’13 was 0.42, here very little decrease of 11%.

Semis 0.08% a million – and if you compare with 2012, it was 0.1 and it decreased by minus 25% year-on-year. Saleable steels nine months – 6.45, 17% increase year-on-year of nine months of 2012 in total sales, and rolled products 4.99 million, 19% increase from 4.19 of nine months of 2012. Rolled long – 1.21 million tonnes, increase 22% from nine months of 2012, 0.99 million. Value added products of nine months of 2013 – 1.2 million against 1.23 million of nine months of 2012 and semis 0.24 million against nine months of 2012, 0.32 million.

JSW Shoppes have increased by 15% to 380 number on 31st December 2012. It was 330 on 31st December 2011. Product share through JSW Shoppe quarter three – 28% value added flat, 26% rolled long, 46% rolled HR product. Thank you.

Now, I request Mr. Rajeev Pai to present the financial performance.

Rajeev Pai: When you look at in quarter three financials, basically it gets driven by production and sales volume story. So in quarter three corresponding our quarter, production growth is 8%, whereas nine months it is 20%. Similarly, the sale growth on quarter three is 14% and nine months it’s 17%. So in-spite of global prices subdued during the quarter, you see a 5% net sales growth at 8,275 in the current quarter as compared to 7,860. This has given an EDITDA of 1,314 crores, which is 5% growth over corresponding quarter.

In terms of finance cost and depreciation – though weighted average rate of debt has come down from 8.44 by September end to 8.18, you would see the finance cost higher mainly because on completion of the projects the interest cost now is completely coming to the revenue account. During the quarter, net debt has gone up around 2,200 crores mainly on drawal of CapEx debt of 1,200 crores, and to boost our long-term working capital 1,000 crores has been borrowed and put in the system.

Prior to PBT, there is an exceptional item basically in the quarter; there is a depreciation of Rupee by 4% which has contributed about 267 crores in the quarter. In addition to that, out of abundant prudent concept, the company has made a provision of 60 crores towards its carrying value of investment in US plate and pipe mill. This provision was done only out of abundant caution. And as on 31st March 2012, when we had done a validation, there was no impairment.

However, based on current, the last two quarter numbers, the company has desired to take a provision which will reviewed again at the year end. After considering 60 crores and 267 crore of Fx exceptional items, the total is of 327 crores. Profit Before Tax for the quarter is 91 crore, which shows about 236% increase. Profit After Tax is 137 crore as compared to 168 crores for corresponding quarter.

During the quarter there have been certain write-back of tax provisions which was assessed in the first two quarters when you take the year-end outlook into the account. Whilst we look at our nine month data, the sales grew at 16% at 26,139 crores. Operating EDITDA also grew by 16% at 4,612 crores as compared to 3,979 crores.

In the last line months, there was an exceptional item because of the depreciation of Rupee which was about 1,020 crores. As against that, foreign currency loss plus US provisions together for nine months is 497 crore. So Profit Before Tax for the nine months period is 1,593 crores which shows about 50% plus increase over the nine months period. After providing taxes for the nine months, Profit After Tax is 1,228 crores which shows 41% increase over nine months. So when you look at the nine months story, it reinforces the volume growth, 16% growth in the net sales, 16% growth in EDITDA, 54% growth in PBT and 41% growth in Profit After Tax at 1,228 crores, which gives about 54 EPS as compared to last year's nine month EPS of 38.

Next slide number 25 explains the EBITDA movement from a corresponding quarter of FY-12 to FY-13. As you can see the volume growth, about 14% volume growth is contributing 172 crores. Global prices have been subdued and that has impacted the local realisations. But also important factor is the imports, and basically 50% percent of the imports which is coming from FTA countries have impacted the domestic prices and the sentiments. Cost is lower by 180 crores. It could have been higher but for an inconsistent and bad quality of iron ore which has impacted not the only the iron-ore cost but also has impacted the conversion cost during the quarter.

Based on this, the quarter -- EBITDA for the quarter is 1,314 crores. Where you see a net debt from September 12th to December 12th, from 14,586 to16,810 crores, the net debt as I explained earlier gone up by 2,224 crores. 1,200 crores is basically for the Capex projects, which got completed and 1,000 crores is for long-term working capital. After considering this and cash of approximately 1,800 crores as on 31st December, net debt to equity as on 31st December is 0.86 and net debt to EBITDA as 2.66.

Pritesh Vinay: Nick, we can now open up for Q&A.

Moderator: Thank you so much all the panellists. With this we are going to start with the 'Q' & 'A' interactive session. So I would request all the attendees and the participants, if you wish to ask any question, please press "0" and "1" on your telephone keypad and wait for your name to be announced. I repeat, participants if you wish to ask any question please press "0" and "1" on your telephone keypad and wait for your name to be announced. And please note, so that everyone can ask a question, so I would request each participant will be limited to two questions. Thank you so much. And here comes the first question from Mr. Prakash Joshi from IDFC. Mr. Joshi, your line has been un-muted. You can go ahead and ask your question, please.

Prakash Joshi: Yeah, hi. I just had a question. One is on the raw material cost. If I do on a Q-on-Q basis, raw material costs are down about Rs. 1,600. If I recollect last time around when we hoped, we were expecting coking coal price reduction to have positive impact about $10. Is the additional thing on iron-ore cost per ton or if that is correct, how should we look at that cost going forward?

Seshagiri Rao: Yeah, Mr.Joshi, I think you're absolutely right. The coal cost has come down, which has impact has come into this quarter. In addition to that, iron-ore average price, what we faced in the last quarter versus this quarter, there's a reduction of Rs. 200 per ton.

Prakash Joshi: Okay.

Seshagiri Rao: Both together have led to a net reduction in the cost.

Seshagiri Rao: And is that a sustainable number going forward, is that your view especially on the iron-ore cost?

Seshagiri Rao: So today if we see what is happening in this quarter, in the case of coal we expect $10 to $15 lower cost in this quarter. As far as iron-ore is concerned, only quality we are concerned, we are worried. So quality is not good at all, very high alumina, very high manganese and low Fe. So on the face of it, it appears to be slightly lower than 3200 on weighted average cost basis for procurement purposes. But when you look at usage and per-ton cost, it can be little higher.

Prakash Joshi: Okay, okay, sure. And sir, [Unclear] I'm sorry I just -- can you just quantify the average iron-ore and coking coal cost for this particular quarter?

Seshagiri Rao: What I mentioned to you is the iron-ore in concern, Rs. 3200 per ton average procurement cost.

Prakash Joshi: And coking coal will be, sir?

Seshagiri Rao: As far as coking coal is concerned, $213 is the C&F average.

Prakash Joshi: C&F price, okay, sure. Thank you so much.

Moderator: Thank you, Mr.Joshi. The next question is from Mr. Pinakin Parekh from JP Morgan. Mr. Parekh, you can go ahead and ask your question, your line has been un-muted.

Pinakin Parekh: Thank you very much, sir. A couple of question, first on your realisations; if I just divide net revenues by net sales, I'm getting a significant drop in realizations, but when I look at the export revenue and the domestic revenue, the decline is much more sharper in the export revenues. They are down something like 31% Q-on-Q. So sir, can you give us a sense of how did your realisation move both in the domestic and export market on a sequential basis and where we are right now?

Jayant Acharya: On the export side, we reduced our volume sales quarter on quarter. When the international prices fell down, they corrected, as we were saying, up to 5%. We decided to focus more on the domestic side. So we increased our domestic by almost an equal amount and thereby maintain the volume. So we reduced our exports as a matter of strategy and increased the domestic part.

Pinakin Parekh: So whatever realisation drop we are seeing of around 6% Q-on-Q, around Rs. 2500 this will be entirely domestic decline? Or did the domestic prices actually fall more or less than what we see what the numbers imply?

Jayant Acharya: So the domestic drop, there has been a drop in domestic prices which is out of this 2500 which you are saying, there is a major impact on account of drop in NSR as a basket as a whole. But yes, domestic have contributed also to that drop in the vicinity of about 5-6%.

Pinakin Parekh: My second question is just on the balance sheet and CapEx. So this is roughly I think 2,000 crores plus increase in net debt. And now the CapEx plan for this year and next year and how should we look at the funding of it and the net debt movement?

Seshagiri Rao: As far as CapEx is concerned, we have given a guidance of 13,000 crores CapEx for the FY13 to FY15. Out of 13,000 crores, we have incurred so far 3200 crores for nine months. Let's say approximately 10,000 crores is yet to be spent. And in a sense another 1,000 crores we spent in Q4. So what is left out to be spent is 9000 crores? This 9000 crores is spread on CRM-2 completions, and also the balance beneficiation plan which we need to complete and the balancing equipment which we are setting up for our 10-million ton facility, but the normal CapEx, electrical steel project which we are incrementing and also increasing the capacity at the downstream where from 0.925 million ton to 1.2 million ton.

So these are the project where this money would get spent. So this CapEx will take us from the existing capacity of 1.8 million ton of value added to almost 4.5 million ton value added, which is almost 45% of our capacity in the flat product side. So there is a huge amount of upside which would be available on account of this CapEx, which we will be spending.

So as far as -- again, balane 9,000 crores is being spent in two years' time, that is FY-14 and FY-15. Then the total amount of debt which we'll be raising for funding this, if I recall the 13,000 crores on the CapEx is funded, 8000 crores out of cash accrual and 5000 crores by way of debt. So out of 5000 crores, we'll be drawing down 3000 crores in this year, the balance 2000 crores we'll be using to the finance the CapEx.

Pinakin Parekh: Okay. So essentially over the next two years as of things stand, we should look at a net increase of 2000 crores of debt at the net basis over the next two years, just on the CapEx account?

Seshagiri Rao: No, there will be repayment also to that extent, a little higher than that. So I don't expect a significant increase in the gross debt. Excepting on account of exchange rate fluctuations.

Pinakin Parekh: Okay, okay. Understood, sir. Thank you very much.

Moderator: Thank you, Mr.Parekh. The next question is from Tanuj Rastogi from Marwari Shares and Financials. Your line has been un-muted, you can go ahead and ask your question.

Tanuj Rastogi: Yeah, hi. Good afternoon, sir. My question is on the iron-ore situation in the state of Karnataka. Sir, in your understanding, what is going to happen probably next six months? Basically, I'm referring to the utilisation because even if the mines start today, it will take some time for them to ramp up the production. So I understand that it's a bit premature to give guidance, but what is the current utilisation level? If you can update us on the situation?

Seshagiri Rao: No, I think one point we would like to bring to your attention is that we have given a guidance of 8.5 million ton of crude steel. So as against 8.5 million ton, we produce 6.41 million tons for the first nine months, which is almost 75% of our guidance. So we will be able to produce the balance quantities in this quarter and achieve our 8.5 million ton guidance. If we have to do that, 80% capacity utilisation, 78% to 80% capacity utilisation…

Tanuj Rastogi: Yeah, for quarter four.

Seshagiri Rao: …will be operating in this quarter. And in the sales side, we have so far sold 6.45 million ton, which is 71% of our guidance. So we'll be very close to our guidance of 9 million ton even in the case of sales, maybe 2-3 lakh ton lower than that, which could happen. Now, coming back to the iron-ore situation, what is visible today is that what we already secured in the e-auction and not yet lifted as on 1st of January. Plus there is a 1 million ton of stock, which is to be auctioned. In addition to that the fresh iron-ore is being produced by NMDC, which is getting auctioned from time to time in this quarter.

All these things together, I think we should be able to manage, as far as this quarter is concerned, we will be able to operate between 75% to 80% capacity utilisation and achieve our guidance. And looking beyond 31st March 2013, so what we are seeing is category A mines, already six mines started operations, they have produced 0.71 million tons already. And by end of this quarter, they will complete 2 million tons of production, which is not auctioned at all. I'm not counting that one when we say we are secured up to March.

And additional production which is being done by the category A mines in this quarter plus additional mines which are getting opened; addition to another four mines were expecting they would get opened up if the R&R

policy is ready. approvals they're in the advanced stage of getting it. So those four mines also will get opened. So that will give additional quantities of iron-ore. So these ten mines together will produce 5 million ton per annum. So if you just look at 2 million tons being produced in this quarter, including whatever they already produced in the 1st of January, there's another 5 million ton which they will produce in the next financial year.

Both together, there will be 7 million tons of iron-ore which would be available from here. Similarly NMDC is increasing their production. We expect 9-10 million tons of production would happen from NMDC. So this 10 million plus 7 million, 17 million ton visibility is there. Then we are very, very anxiously waiting for the honourable Supreme Court to complete the hearing on 1st of February 2013 to look at openings of category B mines. We understand that there are 12 mines where they have complied with all the terms and conditions that have been stipulated by the Supreme Court in their earlier order to consider opening up of category B mine. If those mines are opened, where R&R policy part of it is already approved by CEC, we expect another 6 million ton to come from category B.

Of course, these are all subject to the clearance by the honourable Supreme Court and they'll start mining. So if I add the 16 to the 17 million which I gave you earlier, so total 23 million ton is what is reasonably available for the next year. Whereas industry requirement is 30 million. So there is a shortfall to the extent of 7 million ton to compared to the industry requirement. This 7 million ton, which we are looking at various auctions whether we can get from outside Karnataka to meet the industry requirement. But again out of 23 million, JSW steel is getting in the e-auctions approximately 60% to 70% of the iron-ore that is auctioned.

So we will be able to get 12-13 million tons out of this. So balance 2-3 million tons which we need we may have to secure from outside Karnataka or alternatively to look at the use of any low-grade iron ore which is in the form of dumps in the state of Karnataka; we are looking at that option. So with that, next year we are planning.

Rastogi: Right, sir. Thank you very much for the detailed answers. Thanks, sir.

Seshagiri Rao: One point I would like to clarify before we go to the next question is that what was the coal cost in the last quarter. I gave the number of 213. In fact, 213 is the number in the Q2. In the Q3, the number was 202; just I wanted to clarify that.

Moderator: Thank you, sir. Thank you, Mr. Rastogi. And the next question is from Mr. Bhavin Chheda from Enam Holdings. Mr. Bhavin, you can go ahead and ask your question. Your line has been un-muted.

Bhavin Chheda: Good afternoon, sir. A couple of questions, sir. First on the Rhone coking coal block I understand for the stage one has been cleared. So how much time you think stage two may take and what is the plan after that? What kind of investments you may require on that and when can first coking coal from that mine reach our plant?

Seshagiri Rao: It will take some more time. Stage one clearance has come for Rhone coal blocks. That is also very good development. Then we have to acquire the land, and we have to offer to them the alternate land for forest diversion. That is being done. So I think at least 12 months to 18 months' time we need to give for this.

Bhavin Chheda: Sir, 12 months to 18 months for acquiring land and giving alternate land and then the development will start?

Seshagiri Rao: And also the getting stage two clearance and starting the production.

Bhavin Chheda: Okay. So, production should be 24 months away, sir?

Seshagiri Rao: Yes. 18 to 24 months, yes.

Bhavin Chheda: 18 to 24 months. What kind of mining plan would be there for annual quantities?

Seshagiri Rao: The mining plan approved is 8 million tons. So JSW group share is 69% in that.

Bhavin Chheda: Okay.

Seshagiri Rao: But again, after washing the coking coal that would be available it's estimated to be around 2 million tons.

Bhavin Chheda: So after washing, your share will be 2 million tons?

Seshagiri Rao: Yes, coking coal.

Bhavin Chheda: Okay. After washing your share the coking coal would be close to 2 million tons.

Seshagiri Rao: Yes.

Bhavin Chheda: Okay. And sir, on the earlier question on the iron ore cost, you mentioned, you said it was down Rs. 200 to Rs. 3200, this is your landed cost at plant, right, including royalty?

Seshagiri Rao: Excluding FDT.

Bhavin Chheda: Yeah, excluding FDT because that is disputed. So excluding FDT all other costs are included?

Seshagiri Rao: Yes.

Bhavin Chheda: Okay. And sir, this quarter what would be your rough mix, in the sense how much percentage of iron ore you might have brought out of Karnataka?

Seshagiri Rao: We have bought total 340,000 tons during the quarter including Salem.

Bhavin Chheda: Including Salem. Okay. Sir 3.4 lakhs outside Karnataka?

Seshagiri Rao: 340,000 tons from outside Karnataka.

Bhavin Chheda: Okay. Thanks a lot, sir.

Moderator: Thank you, Mr. Chheda. Here comes the next question from Mr. Ashish Kejriwal. Sir, you can go ahead and ask your question. Your line has been un-muted.

Ashish Kejriwal: Thank you, sir. This is Ashish from Elara Capital. Sir, my question is related to non-steel sales revenue because if I am just dividing top line by volume, obviously, Rs. 2,500 per ton decline seems to be on higher side. So is it possible to give what is the non-steel sales revenue in our top line, which was around 600 crore last quarter?

Seshagiri Rao: Basically non-steel sales revenue is contributed by surplus power, which is sold by the company during the quarter. So, that is what it represents.

Ashish Kejriwal: Yes, what is the amount?

Seshagiri Rao: In addition to that, secondary steel sales and coke fine sales. This is what it is.

Ashish Kejriwal: So what is the amount of that, sir?

Seshagiri Rao: Amount, I don't have right now. I will be able to give it to you.

Ashish Kejriwal: Okay. Not a problem. And sir, secondly, this is related to steel prices. We have been seeing that lots of announcements are coming that steel prices have increased by Rs. 1000 or Rs. 750. But, what actually we are realizing it whether everything is -- we are realizing or, you know, at the end of the month we see that hardly Rs. 200 or Rs. 300 have been realised because of lower demand? So, what was the situation in December and Jan?

Seshagiri Rao: So you must be seeing the numbers. Compare it to either sequentially or compare it to corresponding quarters last year, steel prices on a blended basis are lower, lower by 5% to 6%. So prices are coming down. Prices are in line with international prices and landed cost of imports. So we don't say that the prices are going up substantially in the domestic market. They are just tracking the international prices.

Ashish Kejriwal: So have we increased any prices in Jan?

Jayant Acharya: Yes, in January we have done some adjustments in some of the products. We have increased the prices, but it is not across all the product groups. But on the international side we are able to get an upside on the exports of goods out of our country. So there we are getting some positive inputs on the price.

Ashish Kejriwal: Fair enough. And sir, last question is regarding iron ore. When you are giving the details on iron ore in FY14, you are mentioning that you are expecting NMDC to produce 10 million tons. In that regard – because for next year even if we operate at 80% utilisation, we will need around 17 to 18 million tons of iron ore. So my question is what will happen if NMDC sticks to 5.5, whether we will underutilise our capacity or we are open to, you know, procure iron ore from outside Karnataka?

Seshagiri Rao: No, it is very, very important that NMDC will increase the production, because we also suffered in this year. NMDC has not produced up to one million ton which they had committed to the honourable Supreme Court. What we have seen in the trend is that even though in the months of November and December the production was lower, January, it is going up at a level of 6,50,000 tons in this month. So, therefore, we expect the constraints which they have pointed out to monitoring committees, state govt. of Karnataka and the CEC, they are getting resolved. So there is a very good possibility of NMDC increasing their productions to higher than what they have done in an average basis in this year. So, 10 million ton is reasonably possibly for NMDC to do. If they don't do it, there is a problem. Availability of iron ore is not possible to get large quantity of iron ore outside Karnataka.

Ashish Kejriwal: So are you looking for import option also?

Seshagiri Rao: Vijayanagar as we have been clarifying, import option is not an option because of logistics problem, port problem in addition to overall cost. So, therefore, we try to work how NMDC can increase their production. If they have any constraints, we can work with the CEC and the government to facilitate to remove those constraints and they will increase their production.

Ashish Kejriwal: Okay, sir. Fair enough. Thank you.

Moderator: Thank you, Mr. Kejriwal. The next question is from Mr. Dhawal Doshi from Phillip Capital. Mr. Doshi, you can go ahead and ask your question. Your line has been unmuted.

Dhawal Doshi: Hello, sir. Sir, just wanted to understand, you said long term working capital debt is up by thousand crores. If I was just looking at the results, our inventory has gone down. So where is this additional working capital block?

Rajeev Pai: As you have seen, we have grown by about 20% production growth in first nine months. So when you have an increased production and increased sales, it would require different level of inventories. Also the process of increasing domestic sales and our retail penetration requires inventories to be kept at different levels. Considering this volume growth, we have decided to support it with a long term working capital so that liquidity and the current ratios remain improved in the coming quarters.

Seshagiri Rao: Okay. Inventories overall, maybe, slightly lower, but the point remains – if the receivables increased. we have given extended credits in the market, market there is a liquidity issue but in the retail segment

Moderator: Sir, I am sorry. Your voice is not audible. I am sorry.

Seshagiri Rao: Buying of iron ore in the e-auction, we have to keep deposit with them. That way, a lot of working capital has gone into that. If two are together, more amount has gone in the working capital.

Dhawal Doshi: Okay, fine. And secondly sir, I have missed some amount of the CapEx figures that you had mentioned. I am sorry, if you can just repeat those numbers?

Seshagiri Rao: Yes, yes, we can give you. Investors' team will give you all the numbers.

Dhawal Doshi: Sure sir. I will…

Sheshagiri Rao: 13,000 crores is what we have given in the beginning of the year. Out of that 13,000 crores, for nine months we have spent 3,200. Another 1,000 cores we will be spending. So balance to be spent is 9,000 crores. So I have listed out all the projects where this amount would be spent.

Dhawal Doshi: Okay.

Seshagiri Rao: So these 9,000 crores majorly would be spent out in two years' time, next two years, from April 2013. Out of that, the debt which we will be raising is only 2,000 crores. Balance will be spent out of internal cash accruals.

Dhawal Doshi: Okay. Thank you very much, sir.

Moderator: Thank you, Mr. Doshi. The next question is from Mr. Nitish Jain from Axis Capital. Mr Jain, you can go ahead and ask your question. Your line has been un-muted.

Nitish Jain: Sorry sir. My question has been answered. Thank you so much for the opportunity.

Moderator: Thank you, Mr. Jain. The next question is from Mr. Giriraj Daga from Nirmal Bang. Mr. Daga, you can go ahead and ask your question. Your line has been un-muted.

Giriraj Daga: Yes. Good afternoon sir. Just on the CapEx one. Have you included this 2 million ton of new facility in this 9,000 crores?

Seshagiri Rao: Sorry? Can you repeat?

Giriraj Daga: The 2 million ton what the Vijayanagar expansion from 10 to 12, have you included the 9,000 crore CapEx?

Seshagiri Rao: No, 10 to 12 million ton, the way we are looking at right now, it also include Sinter Plant-5 and also coke oven plant. There is a two units which are to be implemented. So we are keeping those two plants for some time on hold until iron ore situation improves. Other units we are implementing like bar mill and melt shop; these are getting implemented.

Giriraj Daga: So, that includes the 9,000 crore CapEx for the next two years?

Seshagiri Rao: Yes.

Giriraj Daga: Okay. My question on iron ore like how much current inventory is there in our plant?

Seshagiri Rao: Current inventory?

Giriraj Daga: Yes.

Seshagiri Rao: Inventory as on 31st of December is around 760,000 tons.

Giriraj Daga: 760. And, you said around one million ton you had to be – come to the plan to come. We have about – That number is right?

Seshagiri Rao: You have asked iron ore or you asked about steel?

Giriraj Daga: Iron ore inventory.

Seshagiri Rao: Yes, yes. Iron ore inventory is like total which is yet to covert is two million tons as on 1st of January. We have at the plant around 2 lakh tons.

Giriraj Daga: 2 lakh tons. And the remaining around – How much auction you are expecting this quarter?

Seshagiri Rao: I went through those numbers. In fact, the auction is concerned, there are various iron ore lumps which are available – iron ore material available from various sources. Like NMDC, I mentioned to you one-and-a-half million ton will come to us from NMDC in various auctions. This is what we are expecting. In addition to that, there is one million ton of stock which is there, in addition to 2 million ton where we have already bought in the e-auction is yet to come.

Giriraj Daga: Okay.

Seshagiri Rao: This one million ton when it is auctioned, the part of it we will get 6 lakh to 7 lakh tons.

Giriraj Daga: Okay.

Seshagiri Rao: With that we will be able to manage this quarter.

Giriraj Daga: Like iron ore situation, like what should be the input output rationlooking the deterioration of grade? Like are you using around 2.3, 2.4 X of iron ore to making one ton of steel, so the 3200 if I convert into the steel cost should be around, let's say, Rs. 7,000?

Seshagiri Rao: Yes, it will vary. But the average, I think, 2 plus.

Giriraj Daga: 2 plus? Okay, sir. Thank you from my side.

Seshagiri Rao: Thank you, Mr. Daga. The next question is from Mr. Sanjay Jain from Motilal Oswal. Mr. Jain, you can go ahead and ask your question. Your line has been un-muted.

Sanjay Jain: Yes, thank you very much. I wanted to know about this steel pricing environment in India with respect to the import parity pricing. The sense that I am getting is that the domestic prices are at a discount to the import parity prices which historically has not been the case in the last five to seven years. What will you attribute this to and what is the outlook on relative basis?

Jayant Acharya: The domestic price has not reacted to the movement of international prices in terms of the last few weeks, the rate has moved up. But I think these import prices on a landed basis if you were to compare then the domestic prices will be on a similar line. It's not at the discount to the international prices. But if you look at the general domestic demand side, like as far as the JSW is concerned, while the growth generally in India was about 2% level in the last quarter, in the domestic market in terms of volume, we are able to grow 14-odd percent. So we are been able to translate higher volume numbers in the domestic market by penetrating retail, you know, by developing new customers, by increasing supplies into particular sectors in a more strategic way.

Sanjay Jain: Right. When you said that you have been able to realise input parity prices, in your view what are the import parity with price, import price HR you are looking at, because they are all over place because the volumes are very thin on the freight.

Seshagiri Rao: No, Sanjay I think you are prompting NMDC how to price it. But as far as we are concerned, NMDC should follow consistently the pricing formula which they have been doing.

Sanjay Jain: No. I think I was asking about steel. I am not asking about iron ore side.

Seshagiri Rao: Okay, steel. Then Jayant, can you reply?

Jayant Acharya: On the steel side -- Could you just repeat your question once.

Sanjay Jain: As far as the Indian steel prices are concerned, what I get a sense when I speak to the trading community in Mumbai that domestic prices are at discount to the import prices. Historically you see that Indian steel prices have traded at slightly higher prices than the import prices or almost the import parity prices, but I mean, in the last 6 months I am seeing that they are trading at discount which has not been the case in the last 6 to 7 years.

The reason mostly people are telling that the poor demand, but in your statements, if I correctly understood, you are mentioning that the steel prices realised by JSW steel are mostly on the import parity basis. So would you stick to that statement or would you like add some comments?

Jayant Acharya: Yeah. Basically the price increase which has happened in the last two, three weeks or four weeks internationally is not getting fully reflected in the domestic market as of now because of this sluggish kind of a demand which we face in the last quarter. That's specifically, you know, the larger investment cycle projects which were there or not there. The auto was impacted to some extent, consumer durables was impacted. So yes, to some extent it is not been absorbed. But if you were to consider absolute prices today, it depends on what number of import duty we will consider because there are different levels of duties from Japan, Korea, China, Russia, et cetera. So if you look an absolute number basis, I would say if you took hot rolled coiled, we are by an large close to what the import numbers are. If you talk about import numbers today, let's say at levels of $610--$620 CFR level and you would consider different levels of duty. If you were to consider Japanese and Korean, then we are higher than them. If you were to consider Chinese, yeah, then maybe we can be slightly below, but on an average basis, I think we are at par.

Sanjay Jain: And how do you see this panning out over next one year or so. this kind of parity basis?

Jayant Acharya: See, rather than the parity, I think as you addressed the question maybe rightly, we are expecting the steel demands to move up. Price is factor which will follow. Steel demand should move up based on the structural reforms or policy reforms which the government is initiating. If the sentiments improve based on that, if the RBI takes a call on interest cut, you will see further change in sentiments specially on the consumption expenditure side. So we will have a positive sentiment on steel. So therefore, we expect that the steel demand will improve as we go forward.

Sanjay Jain: Okay. Thank you.

Pritesh Vinay: Moderator, can we request for -- we have time only for one last question, so can you please take one last question?

Moderator: Sure, sir. Thank you, Mr. Jain. And the last question is from Mr. Neelkanth Mishra from Credit Suisse. Mr. Mishra, you can go ahead and ask your question, please.

Neelkanth Mishra: Continuing with Sanjay's question on the market environment, Jayant did comment on demand that you expect the demand to improve because of the government measures. What do you see happening on the supply side, because what we hear is that some of the largest players in the market are sitting with meaningful amounts of finished inventory, and that is possibly the reason that Indian steel prices are not really following the global prices up. How do you see that evolving? Because, you know, the commissioning schedule of many of your competitors suggest that actually there will be much more supply coming into the market, domestic market in the coming quarters.

Jayant Acharya: Actually the time of starting the capacity to actual stabilisation of production and volumes increasing in the market, there is always a time lag. So I won't say that you know -- let's say some of our competitors have already embarked on an expansion which is slowly increasing the volumes. You are well aware about them. So you know the time frame which has taken for the volumes to go up. So I won't say that the impact will come in a very big way in the first half of the next financial year. In the second half may be yes; supply would increase in the second half of the next financial year. By that time we expect that even with the lag, the announcement of the policy structural reforms would restart the invest cycle. Because if you are looking at steel demand at about 4% levels today, that's not something which is normal. I think the worst on that cycle seems to be over. So the demand would certainly improve. So when the capacity really comes into market in terms of actual production hitting the market, by that time we will see some numbers on the domestic demand included.

Neelkanth Mishra: I understand. And how do you see inventory at your competitors? Because just two days back one, I don't know, mining company which also has some integrated output was commenting on lot of pig iron and hitting the market because there is not enough steel demand. Do you see your competitors sitting on a lot of steel inventory, and how is that going to shape up over the next quarters, few quarters?

Jayant Acharya: It will be difficult to comment on the competitors' inventory, what level they're sitting at, but I would say that on a overall basis, if we were to look at between the inventory with the mills and inventory with the customers, on an average they remain the same. Because the customers and inventories have gone down over the last few months on the, you know, uncertain demand or the liquidity issues which has been plaguing the market. So if you were to see on overall basis, I don't think the inventory level would changed much except, you know, maybe one or two people may have some higher inventory. But on overall basis, I think it still would be similar.

Neelkanth Mishra: I understand. Thanks.

Moderator: Thank you, Mr. Mishra. I would now hand over it back to the management for any final comments. Over to you, sir.

Seshagiri Rao: Yeah. Thank you very much. And one point I would like to bring to your notice, the other sales number is 508 crores for the quarter 3. Only point I would like to highlight is that in the light of very, very challenging environment in the last quarter, the results declared by the company was impressive, and we had achieved 1,314 crores EBITDA with 15.8% EBITDA margins. This is also very good number. And we have made the provision of 337 crores towards exceptional items which consist of Rupee depreciation, 267 crores, and also we made provision towards carrying value of the US assets to the extent of 60 crores.

So if we take out these items and then look at the results, I think it is very good result even at the PBT or PAT level, if you make adjustment on the exceptional items, and 267 is majorly a translation loss on foreign currency which was valued at 54.75, you already seeing Rupee at 53.50 level. So it gets reversed if the same trend continues in the Rupee. And this quarter we are seeing a slight improvement as far as demand conditions are concerned. And at the same time we are repeatedly saying about we will achieve our targets or guidance for this year, 8.5 million tons. And at the same time the lower cost of production in the coal, cost of procurement that also will get reflected in this quarter. Iron ore in this quarter at least we are seeing a clear visibility of where we will be able operate it around 80% capacity utilisation. So thank you very much.

Moderator: Thank you so much, sir. Thank you all the panellists. So with this we conclude the conference for today. I request all the attendees; you all can disconnect your line. Thank you so much for joining in.