"JSW Steel Limited – 1Q FY14 Earnings Conference Call"

July 31, 2013, 4.00pm (India Time, UTC/GMT +5.30 hours)

Speakers: **Mr. Seshagiri Rao, Jt. MD & Group CFO**
Dr. Vinod Nowal – Dy. Managing Director
Mr. Jayant Acharya, Director – Commercial & Marketing
Mr. Pritesh Vinay, VP – Capital Markets & Group Investor Relations

Call host: **Mr. Sandip Bansal, Director-Research, UBS Securities India Private Limited**

Moderator: Ladies and gentlemen, good day and welcome to the JSW Steel Earnings Conference Call hosted by UBS Securities India Private Limited. As a reminder, for the duration of this conference all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. At this time I would like to hand the conference over to Mr. Sandip Bansal, Director – Research, UBS Securities. Thank you and over to you, sir.

Sandip Bansal: Good afternoon everyone and thanks for dialing in. It is a pleasure to host JSW Steel's 1QFY14 earnings conference call and we would like to thank the management for taking out the time for the call. I will now handover the call to Mr. Pritesh Vinay, Vice President – Capital Markets & Group Investor Relations of JSW to introduce the management team. Over to you, Pritesh.

Pritesh Vinay: Thank you Sandip. A very good afternoon to all of you and thank you for dialing in for the call. We have the senior management team of JSW Steel with us to discuss the first quarter results: Mr. Seshagiri Rao, the Jt. Managing Director & Group CFO; Dr. Vinod Nowal, Dy. Managing Director; Mr. Jayant Acharya, Director-Commercial & Marketing; Mr. Rajesh Asher, Executive Director-Finance; and Mr. Rajeev Pai, CFO of the company. So without much ado I would like to handover the floor to Mr. Rao for his opening remarks and then we will open up for Q&A.

Seshagiri Rao: Good afternoon, I am Seshagiri Rao here. I welcome you all for the briefing on our Q1FY14 performance of the company. I am very happy to inform that the scheme of amalgamation and arrangement with JSW ISPAT and others have become effective from 1st June 2013. The appointed date was 1st July 2012. So the results, which we have just now announced, include the Dolvi unit, Vijayanagar unit, and the Salem unit as standalone JSW Steel. Then, the Vasind unit, and Tarapur unit of erstwhile JSW Steel and the Kalmeshwar unit of JSW ISPAT have gone in to a company 'JSW Steel Coated Products', which is 100% owned by JSW Steel. So when you see the numbers of this current quarter they are not comparable either sequentially or with the corresponding quarter of last year. So with that I am very happy to tell you that JSW Steel today officially has become the largest steel company in terms of installed capacity with 14.3 million tons per annum.

Now, as you must have seen that the external environment is very, very challenging not only in India but in the entire world. Several steel companies have announced the results. For every company either Korean, Japanese, Chinese, Americans whichever company I have seen, there the realizations have come down either sequentially or compared to corresponding quarter of last year; their production is down, their sales are down, their margins are down. The EBIT (Earnings Before Interest & Tax) was in the range of $30 to $45 per tonne. Just now I have seen US Steel results, they have got only $1 per ton as their EBIT. In this context, we have to look at JSW Steel performance. Even in India, the demand growth as announced by JPC for the first quarter April to June was 0.3%. When the environment is so challenging, when India had grown only by 0.3% in terms of steel demand, JSW Steel has achieved a crude steel production of 2.86 million tons –compared to corresponding quarter of last year, the growth was 34%.

Similarly saleable volume sales are concerned it was 2.55 million tons – again a growth of 21%. This is a commendable performance to achieve a volume growth of this size when the Indian steel demand grew only 0.3%. Sales realizations have come down in line with whatever is happening either in India or overseas, so the gross sales was Rs. 10,220 crores which has shown a growth of 3%. Net Sales was Rs. 9,235 crores – again a growth of 2%. But what is very important is EBITDA. The EBITDA, even after including the Dolvi unit, where the EBITDA margins are lower as on date because integration is not complete – the coke oven and pellet plant under construction, and the power plant is not fully operational and the lime plant even. In spite of that if you see the blended EBITDA for the company as a whole was $122 per ton which is 18.7% margin. You must have noticed in the Q4 results of JSW Steel without Dolvi, we were at 18.3%. So, there is an improvement in the EBITDA margin sequentially.

So when the sales realizations have fallen, when across the world the EBIT margins are coming down, JSW Steel had shown $122 EBITDA margin which is again noteworthy here. Then in the combined results (after including the Dolvi unit) you find the interest and depreciation has gone up compared to corresponding quarter of last year – this is majorly due to Dolvi unit forming part of now merged entity of JSW Steel. Then one item which I need to explain is exceptional loss which stood at Rs. 853 crores. This is majorly due to rupee depreciation in the last quarter which was 54.39 as at 31st March 2013, it went down to 59.7 which is 9.76%. So, our payables which were outstanding in the books we had to translate at the closing rate of 59.7. So that has made to show an exceptional loss of Rs. 853 crores. Due to this exceptional loss, the profit after tax was a negative Rs. 220.76 crores.

So if you, just for a minute, take out this exceptional loss of Rs. 853 crores then even profit after tax could have been positive for this quarter and the performance could have been much, much better than what it is shown now. So the loss is majorly attributable to the exceptional loss which arose due to volatile rupee which had happened in the last quarter. Taking this further if you look at consolidated results of the company then the three major subsidiaries we have one is JSW Coated it has also done quite well. It has produced 340,000 tons of coated products. We have sold 330,000 tons in the last quarter. We had made an EBITDA of Rs. 78.9 crores at a net profit of Rs. 2.97 crores in JSW Coated.

US Plate & Pipe Mill – we have operated in the last quarters Plate Mill at 35% and the Pipe Mill at 6%. Even though Plates Mill we have operated reasonably well relative to the corresponding quarter of last year the capacity utilization in the Pipe Mill has come down to 6%. So these all lead to a lower EBITDA even though it is positive it is $0.6 million in the US Plate & Pipe Mill.

In Chile we have done three shipments of iron ore in the last quarter which resulted in to a positive EBITDA of $0.86 million. But in the Chile when compared to the corresponding quarter of last year the EBITDA fell due to lower realizations on iron ore because iron ore prices got corrected in the last quarter.

So this all translated in to consolidated results of gross sales at Rs. 11,194 crores again a 3% growth and Net Sales of Rs. 10,179 crores, a 2% growth. The EBITDA was Rs. 1,879 crores. If you look at the EBITDA Bridge, Standalone Company EBITDA is Rs. 1,749 crores, Rs. 80 crores is from JSW Coated Products, and balance Rs. 51 crores is from other subsidiaries and associates. Again it is a very good performance in the current environment. Exceptional loss in the consolidated results, including Rs. 853 crores in the standalone, was Rs. 862 crores. All these lead to a net loss of Rs. 382 crores on a consolidated basis.

Now we are giving guidance for the entire company including Dolvi for the year. In the month of May we talked about the guidance only for JSW Steel without merger. If you see the slide number 28 the crude steel production for the combined entity will be 12 million tons which is a growth of 7% on its Proforma production for the last year. Similarly, the saleable steel will be 11.55 million tons again showing a growth of 9% on Proforma basis. So if you see the achievement in the first quarter in the case of crude steel we are at 23.5% of the overall yearly guidance, and similarly for saleable steel we are at a level of 22.5%. That way the production was slightly lower relative to the targeted 25% because we have taken a shutdown of our Blast Furnace -1 for 25 days in the last quarter and Corex 1 was under shutdown, which we have commissioned now.

But in the second quarter, we will take the shutdown at Corex -2 for relining. So once second quarter ends, we will be having all the units fully operational and then in the second half we will be able to show more production from these units from both the locations. So this gives us confidence that we will be able to achieve 12 million tons of crude steel production.

And at the same time as far as iron ore availability is concerned, there are total 57 mines where R&R policy has been approved by the CEC. Against which only 12 mines are operating: 10 of category A mines and 2 of category B mines; totaling to permitted capacity of 6 million tons. Similarly NMDC is producing almost close to 9 million tons. So total fresh iron ore mines in Karnataka is 15 million tons today which will get auctioned in the current financial year.

In addition to that there is sub-grade material which is around 10 million tons. They have started auctioning that material. So assuming that there would not be any further mining concessions which will get opened up in this current year, even then we do not find a challenge to operate at current capacity. As out of 15 million tons of fresh iron ore, which will get auctioned, we will get approximately 65% to 70%. Then for the 10 million tons sub-grade material, as there are very few players who can use the sub-grade material, will be available to us. In addition to that, we will be able to get 2.5 million tons from outside of Karnataka. All put together we will be able to operate the Vijayanagar plant at 80% to 85% capacity utilization; and we do not find any challenge in that. To go beyond 80% to 85%, we need further improvement in the iron ore availability. That is why we are very cautious while we are giving guidance; we are not saying that we will operate full capacity at Vijayanagar.

Similarly saleable steel side we are confident that we will be able to sell the quantity of 11.55 million tons because of various strategies which JSW has been following up consistently. Number one is our retail reach in India through JSW Shoppe; our import substitution strategy which we have been following to replace the imports in to India. In the last year, India imported almost 8 million tons. So we wanted to target the imports when the Indian steel demand growth is subdued. I think this is one area where we are very aggressively looking at. Then third is product profile. We have changed our product profile, we are doing more of value added products, colour coated quantities. In the last quarter we have increased our sales by 41%. There we have increased the capacities. So this will increase our competitiveness, increase our EBITDA margins and also increase our ability to sell this targeted volume of 11.55 million tons.

Then in this quarter we have commissioned 7 projects at Vijayanagar and we have commissioned two projects at Dolvi and we have also commissioned the color coating line at Vasind. So, that way there are several projects (which we had indicated in the beginning of the year) where capital is being spent. So we are commissioning those units. In addition to that the pelletization plant and the Coke oven battery, part of the Dolvi unit, are in advanced stage of implementation. By end of this calendar year, we will be able to commission these two units. Then the entire complexion of Dolvi unit will undergo a change. The margins in Dolvi will not be just equal but will be even better than Vijayanagar margins upon commissioning of the Pellet plant and the Coke oven batteries.

So with this I will now open it for Q&A. Thank you.

Moderator: Thank you, sir. Ladies and gentlemen we will now begin the Question & Answer Session. The first question is from the line of Pinakin Parekh from JP Morgan. Please go ahead.

Pinakin Parekh: Three quick questions. My first question is on the export revenues. There is a very steep decline on a Q-on-Q basis and even on the last 5 to 6 quarters where the revenues have been averaging around Rs. 1500 crores to Rs. 2000 crores per quarter. This quarter it fell below Rs. 1000 crores. So what were the drivers for that? My second question is sir the implied realizations show a nearly 4% decline in realizations I mean just wanted to get your view on this? Did Q-on-Q steel prices fall by that much domestically or have price has been more stable? And my last question is on coking coal cost. What were the rupees per ton cost decline that JSW saw in the current quarter sequentially and how should we look at it going forward? I mean should we see more coking coal cost declines coming through or have prices bottomed out?

Jayant Acharya: Yeah Pinakin, this is Jayant here. Your first question is on the exports decline Q-on-Q. In the quarter January-March the prices in the international market had moved up. So we had taken an opportunity to export our products in a very big way and March through June the prices in the international market fell by $50 to $80 depending on the region. Due to which we stepped back and refocused our attention to the domestic. That is why you see a correction on the export volume or the export revenue. The second point is on the realization. The Q-on-Q realizations are flat. We have been able to maintain a flattish realization by virtue of the fact that we have refocused to the domestic market and to our value added and product profile. Third is on the coking coal cost. The coking coal cost for April-June was $175 CFR blended coking coal input and going forward we expect in July-September the blended cost to drop. It will drop by $5 to $10.

Pinakin Parekh: And what was this cost would have been in dollar terms in the March quarter?

Jayant Acharya: It was about $179 to $180.

Pinakin Parekh: So the cost reduction that we have seen in this quarter was not driven by coking coal, would it be fair to assume that?

Seshagiri Rao: Yeah, not mainly from coking coal but iron ore the overall quality was better so that also improved the fuel efficiency which also lead to the reduction. Plus we could set up the waste heat recovery boilers in BF3 and BF4 to stop flaring of BF gas waste gas, earlier we were flaring BF gases to the extent of almost 10% to 12%. We are setting up waste heat recovery systems at Sinter Plant - 1, Sinter Plant - 2, Sinter Plant - 3, Sinter Plant -4 also. Some of them have been commissioned; some of them are in various stages of commissioning. So wherever heat is wasted we are capturing that.

Pinakin Parekh: So this is structural so this will not reverse over the coming quarters, this should continue to flow through I mean this is systematic improvement?

Seshagiri Rao: Yes.

Moderator: Thank you. The next question is from the line of Prasad Baji from Edelweiss. Please go ahead.

Prasad Baji: Can we break out the, I know we have done the amalgamation, but for the purpose of comparison can we break out the EBITDA and sales volume for the erstwhile JSW stands alone and JSW Ispat? And from the bridge we were seeing that in the EBITDA bridge there is an amalgamation benefit of EBITDA of Rs. 231 crores. So is that the JSW Ispat EBITDA?

Seshagiri Rao: No, only Prasad I wanted to clarify here now we have multi locations. For each location, we will not be able to give the EBITDA separately. So therefore what we can explain as far as slide number 12 is concerned, the Rs. 231 crores excludes the Vasind and Tarapur EBITDA which we had earlier. So that goes out and then what comes in is Dolvi. So put together, the impact is Rs. 231 crores. One more point I would like to bring here is that so far we used to guide the blended EBITDA numbers for JSW Steel as a standalone company (for Salem and Vijayanagar together but excluding Dolvi). As you all are aware that the Dolvi unit was far behind that number. So after including Dolvi, where the kind of upside which I have mentioned in my opening remarks that once the pallet plant and coke oven battery get commissioned the EBITDA margin will be equal or more than what we are getting right now at Vijayanagar, you are still seeing US$ 122 per ton EBITDA. So from that point of view there is upside but we are not giving location wise break up of EBITDA

Prasad Baji: Just related to the amalgamation, it will be abundantly clear the financials are for all the three months put together, right? I mean there was one date of June 13 so that does not mean that the financials for Dolvi are for only one month?

Seshagiri Rao: No, it is for the entire quarter. Only just to further elaborate, the appointed date is 1^{st} July 2012. So the opening balances as on 1^{st} April 2013 were adjusted for 9 months results. From that opening balance, the standalone results which we have declared today is for the entire quarter including Dolvi but excluding Vasind and Tarapur in to a separate company. In the consolidation results everything is included for the entire quarter.

Prasad Baji: And the second question on the tax front, I remember the discussion at the time of merger that definitely we were going to have tax savings from the merger so we are indeed seeing a low tax in merged entity but at that time the understanding was that we would be paying tax on the MAT basis whereas here it is obviously a negative number so it is just a one quarter effect or on an overall basis we expect to be MAT paying or what is the kind of tax we should see in the new entity now?

Seshagiri Rao: JSW Steel was a MAT paying company even prior to the merger. But for instance if merger has not happened in the current or next year, we could have been a tax paying company. Now as the merger has happened, we have carried forward losses of close to Rs. 9,000 crores. So post merger, as it is possible for the merged company to take the benefit of this Rs. 9,000 crores, JSW Steel continues to be a MAT paying company. But as we have been guiding in the past also, the overall tax provision in the books will be MAT plus deferred tax liability. I do not think that will undergo a change. That remains more or less at the same level. But instead of paying income tax at 34% in the form of cash outflow it will be only MAT until we fully recover the un-absorbed losses/ carried forward losses of Rs. 9,000 crores.

Prasad Baji: So on a sort of yearly basis we should be building in MAT as the tax continued to build in MAT as tax rate?

Seshagiri Rao: MAT tax is cash outflow, provision you have to make full.

Prasad Baji: Provision will be full, yeah accountings and.

Seshagiri Rao: Yes.

Prasad Baji: And just one another question we have seen few things one is we have seen that we have increased the borrowing limit from Rs. 25,000 crores to Rs. 40,000 crores. There has been lot of reports about us bidding for the Stemcor asset and possibly setting up a steel plant in Orissa. So is there some color on what would - are there some sort of new expansion moves that we are contemplating?

Seshagiri Rao: No here number one, as far as Orissa is concerned it is only an exploratory visit as Mr. Jindal also clarified. It is not that we will take up these Greenfield projects in either Bengal or Jharkhand or Orissa. So these projects are at various stages of either approvals or exploration. We are not going to spend much money on this. Our guidance for total capital expenditure has remained at Rs. 10,750 crores. Out of Rs. 5,000 crores will be spend in this year. We are in that line. We have spent around Rs. 1000 crores only in the Q1. So we are in line with whatever we have been guiding you. As regards to the acquisitions in the backwards integration space, we are looking at various opportunities. As you know that we will be spending almost close to Rs. 6000 crores per annum on the iron ore procurement and similarly $2.5 billion on the coking coal side. This is a large amount which we continue to spend. So, backward integration is our focus. So when we look to acquire any of these facilities, we definitely study that what is the kind of savings we can get. We will do in a manner that the savings from the acquisition would be sufficient to service the debt if any which we raise in future for such acquisitions as and when it happens.

Moderator: Thank you. The next question is from the line of Pavas Patheia from Motilal Oswal. Please go ahead.

Pavas Patheia: Sir, my question relates to your other expenditure. Sir, if I look quarter-on-quarter there has been a sharp drop in other expenditure. Even if I compare the standalone numbers from the pre-merged entity there is Rs. 100 crores drop. Then again Ispat numbers they are in there Rs. 250 crores so at least, Rs. 350 crores savings on this account. So this is on account on what are the factors governing this drop?

Seshagiri Rao: No, majorly the other expenditure also includes carriage outward on exports. So exports turnover as somebody pointed out earlier has come down because the exports have moved from this company to Coated. So that is where that carriage outward is one item which has substantially reduced in this quarter either compared to corresponding quarter or standalone number.

Pavas Patheia: So what will be quantum of this effect?

Seshagiri Rao: Quantum I do not have right now.

Pavas Patheia: So that is the only reason we are seeing this sharp drop?

Seshagiri Rao: Correct.

Moderator: Thank you. The next question is from the line of Rajesh Zawar from Anand Rathi. Please go ahead.

Rajesh Zawar: Sir, basically there are two questions. One was related to how do you see the structure of the balance sheet going forward in terms of the expanded debt what you are talking about? Will we maintain the similar ratio what we have till now?

Seshagiri Rao: Is there one more question or you want me to answer now?

Rajesh Zawar: Yes sir, this was on the balance sheet side and second was related to sir from the demand outlook what are you looking at in from India perspective? Exports understood your stand but from India how are the sectors looking and sectoraly how is the demand panning out?

Seshagiri Rao: As far as balance sheet size is concerned, the consolidated net debt as on 30th June 2013 was Rs. 29,135 crores. Weighted average cost of interest was 8.17%. Our consolidated net worth was Rs. 21,157 crores, our debt gearing was 1.38x. So these were the ratios which were there as on 30th June 2013. So going forward we do not want to go beyond 1.5 that is the limit which we have been guiding and the Rs. 29,135 crores debt also includes the exchange rate fluctuation on the foreign currency long term debt. That is Rs. 1,000 crores. Net has gone up by Rs. 1,000 crores due to exchange rate fluctuation on long term debt. If I just take it out then Rs. 28,135 crores is the net debt. Then with this guidance of 11.55 million tons of steel which we will be selling in this year and the total generation of cash plus the kind of accretion to the net worth if we take in to account I do not think the ratios will dilute going forward from here on.

Jayant Acharya: On the demand side, we are adopting three strategies. One is that in the first half is likely to be a little sluggish. We are going to be concentrating in the second quarter on exports given the opportunity that international prices have risen by $25 to $30 as well as the impact of the rupee depreciation. We as a second strategy in the domestic market we are aggressively replacing imports as Mr. Rao pointed out last year our import was about 8.6 million tons. We plan to replace part of that import and we are targeting customers who have been importing. Third is on the retail side. We have been penetrating and improving our reach in to various parts of the country and our Shoppe sales growth in the last quarter vis-à-vis corresponding quarter has been 17%. Just to give you a sample in value added like color coated in retail, we grew by 72%. Our longs sales in retail increased by 68%. So you will be able to see these in slide number 9 which gives you some feel of the retail strategy we were just working out in the domestic market. So imports substitution, aggressive exports when the export gives you an opportunity and third is retail penetration and fourth is the value added product sales in the domestic market.

Moderator: Thank you. The next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.

Bhavin Chheda: Sir, few questions. One is on the increase in stock in trade if I see was close to Rs. 816 crores standalone and Rs. 1100 crores in consolidated. If you can reconcile that I believe I think again it was due to more on the buying iron ore on the e-auction side as well as the finished good inventory, so if you can break it up in to why the inventory has gone up so much in the quarter?

Seshagiri Rao: Finished goods inventory went up. I think that is the major reason where you will find the increase in the inventory of Rs. 861 crores in the standalone company. So as you know in the quarter of March generally the focus is to accelerate sales and reduce the inventory. So we brought down our inventory to a very low level in the month of March. In this quarter on a consolidated basis if I look at Indian operations, the total inventory built up is close to 290,000 tons. Out of these 290,000 tons, 75,000 tons is only in the semis like billets and slabs. Another 45,000 to 50,000 ton is in the long products where we sold from all our branches in the March quarter. We need to build in those traditional longs products. So if I take out that balance 200,000 tons approximately what we have, we plan to clear off in this quarter.

Bhavin Chheda: Sir, you are saying the closing inventory is 290,000 tons or saw an increase of 290,000 tons?

Seshagiri Rao: Increase of 290,000 tons.

Bhavin Chheda: So what would be the closing number like?

Seshagiri Rao: As a standalone company if I see it is 779,000 tons but if I look at including Coated it is 970,000 tons.

Bhavin Chheda: Including coated would be 970,000 tons?

Seshagiri Rao: Yes.

Bhavin Chheda: And when you say 780,000 tons this includes the Ispat Dolvi?

Seshagiri Rao: Yes.

Bhavin Chheda: So what you are saying is 780,000 tons is the HR or semi's inventory including long product billets and all that and 2 lakhs tons 2.20 lakhs tons is CR GALVA?

Seshagiri Rao: No, not CR GALVA. Total together if I analyze this 290,000 tons out of that 50,000 tons is let us say is longs products and 75,000 tons is semi.

Bhavin Chheda: Yeah, that is the incremental. I am just saying on the total number so 0.78 is the till the HR or the long run 0.97 is the total inventory in the system?

Seshagiri Rao: No, I do not have the break up of which product it is.

Bhavin Chheda: Okay, no problem. But this is the inventory number?

Seshagiri Rao: Yeah.

Bhavin Chheda: Just on the consolidated net worth number you mentioned it as Rs. 21,157 crores right sir?

Seshagiri Rao: Rs. 21,157 crores, yes.

Bhavin Chheda: I believe JSW Steel consolidated number as on March was close to Rs. 17,000 crores so this is the post Ispat merger and post revaluation number?

Seshagiri Rao: Yeah, this is after the merger after giving merger impact. This is the net worth for the merged entity on a consolidated basis.

Bhavin Chheda: And this includes the preferential number also, right?

Seshagiri Rao: This includes preferential number, yes.

Bhavin Chheda: So how much would be that sir?

Seshagiri Rao: Rs. 485 crores which has come in from JSW Ispat and Rs. 279 crores is outstanding in JSW Steel earlier. Total Rs. 764 crores.

Bhavin Chheda: And sir, the net worth which has been added it is why the revalued assets of the acquired company right or the merged company? So we will see that over gross block going up due to this difference right?

Seshagiri Rao: No, it is a combination of various items but still JSW Steel invested in JSW Ispat Rs. 2357 crores that got written off. Similarly JSW Ispat was having Rs. 1200 crores of net worth which has come in here. So it is a combination of various entries. Yes, there is a revaluation of assets at fair value. So the gross block has gone up to some extent.

Bhavin Chheda: Last one what would have been the landed iron ore and landed coking coal cost in the quarter?

Jayant Acharya: The coking coal blended average cost April-June was $175 CFR port. And the iron ore cost for Vijayanagar was Rs3450/ton on an average.

Bhavin Chheda: $3450 versus if you have Q4 and Q1 of last year?

Jayant Acharya: Q4 last year coking coal was about $179 to $180 and iron ore average was Rs3150.

Seshagiri Rao: Only here one point I wanted to add is iron ore in relative terms appears to be on higher side compared to other number which Jayant has given. But this is majorly on part of iron ore which we have procured from outside Karnataka. So therefore Fe is better. Therefore fuel efficiency was better even though the absolute number appears to be on higher side in procurement.

Bhavin Chheda: And if you have the Dolvi plant iron ore landed number handy that can help us?

Seshagiri Rao: No, we do not have that number right now.

Bhavin Chheda: Just on the question on the, in the presentation sir you gave the Karnataka break up so you were mentioning 12 mines are operational which would give 8 odd million, NMDC is another 8 million to 9 million so the availability is 15 million and if I take 65% to 70% there which means 10 million is available on your side and again sub grade over you mentioned is another 10 million. So roughly 20 million and you said 2 million to 2.5 million from outside Karnataka. So your theoretical availability is 20 million to 22 million for FY14 is that correct?

Seshagiri Rao: Look entire 10 million tons of sub-grade may not be auctioned even thought it is available. That is one. And Fe is very less. Two tons will make only one ton.

Bhavin Chheda: I understand that so adjusting further I was just calculating a total number for sub-grade we have to multiply by 40%, right?

Seshagiri Rao: Yeah, in our calculation we have taken that around 5 million ton sub-grade will be auctioned in this year which will translate to 2.5 million tons of useable.

Bhavin Chheda: You assume only 5 million of auction this year not entire 10 million this year?

Seshagiri Rao: Yeah.

Bhavin Chheda: So that is the reason that you are looking to because otherwise I was looking you do not need any outside Karnataka ore?

Seshagiri Rao: Absolutely.

Bhavin Chheda: So sub-grade your assumption is 5 million only?

Seshagiri Rao: Yeah.

Bhavin Chheda: And sir, on the CAPEX side just to get the number correct now pending CAPEX is Rs. 10,500 crores, right?

Seshagiri Rao: As on 1st April.

Bhavin Chheda: As on 1st April including Ispat?

Seshagiri Rao Yes.

Bhavin Chheda: And you would be spending Rs. 5,000 crores this year?

Seshagiri Rao: Yes.

Moderator: Thank you. The next question is from the line of Ram Modi from Dolat Capital. Please go ahead.

Ram Modi: Just wanted to know what would have been the revaluation reserves which have been created?

Seshagiri Rao: Revaluation reserve due to merger? There is no revaluation reserve if you see that it will become capital reserve on fair valuation. So this number we can give separately. On account of merger, after writing-off the investments, after giving the tax impact and after doing the revaluation all put together, the net worth was Rs. 21,157 crores on a consolidated basis.

Ram Modi: And what would our total acceptances now?

Seshagiri Rao: Total acceptances including Ispat (Dolvi) is US$ 1.636 billion.

Ram Modi: These are only revenue acceptances or they include capital acceptances?

Seshagiri Rao: This is revenue.

Ram Modi: And just wanted to know what would have been our working capital requirement, just for my balance sheet side?

Seshagiri Rao: We do not use much fund based Working capital. It will be in the range of Rs. 1500 crores. Whereas most of remaining is in the form of the acceptances where we have open LCs and get the coal. So I do not think that will undergo a dramatic change.

Ram Modi: And just an another question regarding our strategies Mr. Rao we have seen a significant kind of a depreciation in Rupee for over the last two period now so do you contemplate any change in strategy in terms of at least hedging some part of your acceptances to get it in the benefit on the top line but we do not deduct our exceptional items from a EBITDA but it is an actual loss to the company over a period of time. So is the company contemplating any change in terms of foreign currencies hedging or borrowing strategy or anything?

Seshagiri Rao: Somehow we are not able to put across our point of view that whatever translation losses we have in the P&L that gets neutralized by way of higher sales revenue going forward. So it is only a translation loss therefore we need not worry about hedging. We have a natural hedge. But I understand the concern of the investors where the volatility in earnings is caused by this translation loss if there is a huge amount of volatility in the rupee. So in order to address this issue we are reviewing our hedging policy at the group level and at the company level and we want to take a call may be in the next 15 days' time. We will come back to you and we would like to review and change to reduce the volatility in the earnings. Even though we feel that this is a translation loss and we will get neutralized by way of higher realizations in the sales, only with the objective of reducing volatility we would like to review that.

Ram Modi: Another question Mr. Rao is other than the acceptances how much part of a Rs. 29,000 crores is now foreign currency debt or link to foreign currency?

Seshagiri Rao: That is 39%.

Ram Modi: Now the next question relates to our operations. Is further all our expansions are coming under in flat product category if you really look at our product mix at around 14.5 million tons we will be less than 20% so would this company looking for any further either switching out of current existing products to long products or how do we go about it and Jayant if you can help it?

Jayant Acharya: No, as we have indicated in the last time analyst meet that we are now setting up a bar mill at Vijayanagar. That is 1.5 million tons, which is part of Rs. 10,750 crores Capex. Therefore this 2.5 million tons of longs products in overall 14.3 million tons capacity will become 3.5 million tons of longs products. This will happen in the next financial year. So we are increasing our long product presence through setting up this bar mill at Vijayanagar.

Moderator: Thank you. The next question is from the line of Prasad Baji from Edelweiss. Please go ahead.

Prasad Baji: Just a follow on question. You have given the our merged entity P&L and can you just give a little summary balance sheet of course you have mentioned the net worth and net debt but just like on the net fixed assets, net working capital just some summary balance sheet if you can provide?

Seshagiri Rao: Generally Prasad, as you know that balance sheet will be given half yearly. That’s why we have not given as a part of this.

Prasad Baji: Not a problem in fact I was not asking for even the June quarter. I was just seeing in your footnotes you have the Performa merged P&L for FY13, right?

Seshagiri Rao: Yes.

Prasad Baji: So I was just contemplating that for the same period if you can give a summary balance sheet that would sort of complete the picture but if it is not there I can take it separate not a problem?

Seshagiri Rao: We have not made available to stock exchanges or anywhere else so we have not given that number. But if you need any details through our investor relations, please seek that they will be able to provide whatever is required.

Moderator: Thank you. The next question is from the line of Bijal Shah from IFL. Please go ahead.

Bijal Shah: I have a question on Dolvi expansion, do we plan to go to 6 million ton in Dolvi, is there anything on the drawing board right now?

Seshagiri Rao: No, today that way if you see there are three green filed projects which we are looking at. One is in Bengal another is in Jharkhand and Orissa in exploratory stage. But all these three Greenfield are very long term in nature whereas at the time of acquisition of JSW Ispat we indicated that it is a great opportunity for JSW to do brown field expansions. In Vijayanagar the 10 to 12 million tone also we have put on hold because of the availability of iron ore is concerned. So in that context the next phase of growth we can show it to you fro Dolvi. So today we are examining that point but nothing is announced as on date so nothing is concretized today. So therefore it is not there as on date.

Bijal Shah: Yeah, but sir I mean should we assume that by elimination right now that is the most probable growth opportunity and since our CAPEX is likely to as of current plan CAPEX is likely to taper off significantly beyond next year. So we should expect an announcement some time in next 6 to 8 months or may be 6 to 12 months?

Seshagiri Rao: No, we are very conscious of our debt gearing which we have mentioned. Therefore before we kick off the next phase of growth either through Brownfield or Greenfield we will look at our total overall gearing and overall balance sheet, overall cash flow then only we will take up. But you are right that the Brownfield expansions are more attractive where specific investment cost is low, pay back period is less and the returns are high. Therefore the natural choice will be either Vijayanagar expansion by 2 million tons if iron ore situation improves or the Dolvi expansion. These two are definitely more attractive to us.

Moderator: Thank you. The next question is from the line of Kamlesh Bagmar from Prabhudas Lilladher. Please go ahead.

Kamlesh Bagmar: Sir, one on this NPV based benefit which used to happen in JSW Ispat so is it part of the other income even now also or is it clubbed in net sales?

Seshagiri Rao: No, it is part of other operating income.

Kamlesh Bagmar: And sir, secondly on this particular coking coal and these acceptances so like how much month of coking coal requirement is shown under acceptances on a normal basis, sir?

Seshagiri Rao: We take generally the 6 months credit.

Moderator: Thank you. The next question is from the line of Shashank Kanodia from ICICI Securities. Please go ahead.

Shashank Kanodia: My questions, there are two questions. First in the sales part. We have reported a sales sum of 2.55 mil tons on the standalone basis and we also to put it the coated product sales of 0.33 million tons. So is it a safe assumption to be made that for this 0.33 million tons of coated products sales you have taken the raw materials from standalone entity and at the group level our sales are at 2.55 million tons?

Seshagiri Rao: Yeah, I think you are correct. At consolidated level it is more or less at 2.55 million tons because only JSW Steel is sending the hot rolled coils to them.

Shashank Kanodia: Secondly on the operational performance. In the last quarter that your reported EBITDA standalone basis is Rs. 7,000 per ton and Ispat derived around Rs. 4500 per ton, so taking that in to account we could have actually put it EBITDA of around on blended basis Rs. 6200. We do understand you that you have saved around Rs. 250 per ton from the coking coal reduction prices. So it was just hard to understand where it have been the rest of savings from like close to about Rs. 650 odd rupees per ton because on the if we combine the EBITDA patter for this year quarter results we have like Rs. 1749 from the standalone and Rs. 79 from the coated products so that makes around EBITDA of Rs. 1828 and EBITDA per ton corresponding Rs. 7168?

Seshagiri Rao: No, you are correct that Vijayanagar unit EBITDA margins are better than Dolvi. We have been talking about, in this quarter we have done better than the industry and also improved our margin. At Vijayanagar I told you that waste gas recovery is one area where we have got savings. Iron ore procurement cost has gone up but we have to factor in the fuel efficiency and the consequent benefits of using little better iron ore, in addition to the coking coal blend. All these together gave this advantage and overall EBITDA of Rs. 6800 odd ($122) even though the Dolvi margins are lower.

Shashank Kanodia: Sir, on the basis of this base case scenario what type of EBITDA as a pattern that we foresee, if you can quantify that?

Seshagiri Rao: No, today JSW Steel buys iron ore, buys coking coal. So we are assuming that these prices may be at the same levels as on date. Similarly we see very limited down side for the selling prices also. Then we will be able to preserve the margin. The kind of upsides which can come: one is from Dolvi plus the projects which we commissioned in this quarter either waste heat recovery or in terms of the heat recovery in various places sinter Plant-1, sinter Plant-2, Sinter Plant-3. All these together will increase the margins further going forward. So it would not fall below these levels.

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

Ashish Kejriwal: My question is related to iron ore. When you are talking about landed iron ore cost per ton has increased but because of better you can say better Fe content it was there, so do you have the ready number for iron ore cost per ton of steel for Vijayanagar which includes your ratios also as such?

Seshagiri Rao: No, we do not have that number.

Ashish Kejriwal: So if you have that how much you have purchased from outside this quarter versus last quarter?

Seshagiri Rao: Outside?

Ashish Kejriwal: Karnataka?

Seshagiri Rao: We will give you that number, we are just getting it.

Ashish Kejriwal: And secondly sir, have you sorted out any issue on FDT or still we are contemplating to provide that in P&L because we are not getting Indian rupee and the matter is still sub-judice so?

Seshagiri Rao: FDT case is still going on the High Court of Karnataka. So therefore this amount still is under dispute as on date.

Ashish Kejriwal: So you mean to say your cash flows are going on but the only thing is we are not putting it in P&L so what could be the amount for this quarter?

Seshagiri Rao: It is around Rs. 85 crores but in this quarter we have made a provision for this Rs. 85 crores. But we are just debating whether to continue this provision going forward.

Ashish Kejriwal: So Rs. 85 crores is not the entire amount of your FDT due?

Seshagiri Rao: No, Rs. 85 crores is the actual FDT which we have paid in this quarter. That Rs. 85 crores has been fully provided for in this quarter. But as on 31st March there was Rs. 860 crores outstanding FDT where cash flow was Rs. 650 crores was already paid balance was not paid. So no provision was made for that amount as on 31st March. The amount is going up quarter after quarter. What we decided we will make a provision in the books from 1st of April. So this quarterly result which we have declared includes the provision for the quarter.

Ashish Kejriwal: For Rs. 85 crores, this is included in raw material I guess?

Seshagiri Rao: Yes.

Ashish Kejriwal: And what is the total amount which is still lying for this quarter only?

Seshagiri Rao: For this quarter there is nothing remaining. We have paid and we have provided for.

Ashish Kejriwal: Okay, just Rs. 85 crores for this?

Seshagiri Rao: Yes.

Ashish Kejriwal: But FDT is like sir, because our cost of iron ore could be around in the range of Rs. 3,000 per ton and FDT is 12% of that, that is at least Rs. 300 per ton. So Rs. 85 crores seems to be very on a lower side?

Seshagiri Rao: All the iron ore is not bought at Rs. 3000 per ton and iron ore different grades we buy. We buy at Rs. 350, we buy at Rs. 3000. So therefore FDT is not applicable on the entire amount that is one. Number two is the iron ore which has bought outside Karnataka there is no FDT.

Ashish Kejriwal: Yeah agreed. That is what I was looking at what was the total amount which we purchased and what could be the blended cost not the landed cost but the blended cost of iron ore on which FDT was included?

Seshagiri Rao: Yeah, that is why FDT total impact is Rs. 85 crores in this quarter. Sorry, one more question you have asked how much we have bought from outside?

Ashish Kejriwal: Yes.

Seshagiri Rao: It is 3,64,000 tons.

Ashish Kejriwal: And it was in fourth quarter?

Seshagiri Rao: Fourth quarter number our investor relations will provide to you.

Moderator: Thank you. The next question is from the line of Prakash Joshi from IDFC. Please go ahead.

Prakash Joshi: Can I just check what the FX loss was for this quarter and whether you pass it through the other expenses or is it below the line?

Seshagiri Rao: It is below the line.

Prakash Joshi: What was the total amount?

Seshagiri Rao: Rs. 853 crores, standalone.

Prakash Joshi: And can I also check on the inventory levels are they in line or are they in line with your estimates or how do you see inventory level at this point of time?

Seshagiri Rao: Yeah, I think inventory numbers we have already given. It is not excessive.

Moderator: Thank you. The next question is from the line of Kamlesh Bagmar from Prabhudas Lilladher. Please go ahead.

Kamlesh Bagmar: Sir, in the standalone accounts we are seeing this purchase of traded good. Is it the case that we have got the materials from coated products and resold in the standalone operations?

Seshagiri Rao: No, what happened was when the merger became effective on 1st June 2013 then whatever inventory which was lying and which was to be sold, until registration for sales tax and VAT that has to be completed it took some time, registration on the name of JSW Coated was pending, so we have taken the inventory on sale basis from there and we sold from there.

Kamlesh Bagmar: So this anomaly would not be there in there in Q2?

Seshagiri Rao: Sorry, you were asking something?

Kamlesh Bagmar: Second quarter it would not be happening?

Seshagiri Rao: No, second quarter it would not be there.

Pritesh Vinay: I think we are almost running over time so if there are no more questions then may be we can wrap up?

Moderator: Yes sir. There are no further questions in the queue. At this time I would like to hand the conference over to Mr. Sandip Bansal for closing comments.

Sandip Bansal: Thanks Vivian. I would like to thank the management of JSW Steel for providing us the opportunity. Thank you all the participants for dialing in. I will now hand over the call to the management for closing comments if any.

Pritesh Vinay: Thank you Sandip, thank you everybody for taking time out for attending this call. In case there any follow up questions please feel free to reach out either Sandep Agrawal or myself and we will be happy to get back to you. Thanks and have a good day.

Moderator: Ladies and gentlemen on behalf of UBS Securities India Private Limited that concludes the conference. You may now disconnect your lines. Thank you.