“JSW Steel Limited -3Q FY14 Earnings Conference Call”

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Speakers: **Mr. Seshagiri Rao, Jt. Managing Director & 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. Pinakin Parekh, India Metals & Mining, Cement Analyst, JP Morgan**

Moderator: Ladies and gentlemen, good day and welcome to the JSW Steel Limited 3Q FY14 Earnings Conference Call, hosted by JP Morgan India Private Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing “*” and then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Pinakin Parekh of JP Morgan. Thank you and over to you Sir.

Pinakin Parekh: Good afternoon everyone. We at JP Morgan welcome everyone in JSW’s third quarter results conference call. Joining us today is the senior management of JSW Steel. I would now hand over the call to Mr. Pritesh Vinay, Vice President (Capital Markets and Group Investor Relations) at JSW. Over to you Pritesh!

Pritesh Vinay: Thank you Pinakin. Good afternoon everyone. On behalf of JSW Steel, we welcome all of you to discuss our third quarter fiscal 2014 results. Along with me we have the senior management team of JSW Steel comprising of Mr. Seshagiri Rao, the Joint Managing Director and Group CFO, Dr. Vinod Nowal, Deputy Managing Director, Mr. Mr. Jayant Acharya, Director - Commercial & Marketing, Mr. Rajeev Pai, the CFO and Mr. Prashant Jain, Head Corporate Strategy & Development. So, I would now like to hand over the floor to Mr. Rao for his opening remarks.

Seshagiri Rao: Good afternoon to everyone. You must have seen our third quarter results. The stellar performance by JSW Steel in the third quarter is majorly characterized by volume growth, in production and also sales and also highest ever exports of over 1 million tonnes in this quarter. The operational improvement, which we have done, improved the margins. The hedging policy, which we explained in the last quarter that eliminated completely the exceptional losses reflecting improved operational performance in this quarter.

In spite of huge challenges, in terms of iron ore availability, quality and very high prices due to scarcity, JSW Steel could show improved performance not only at operating level, even at the net profit level standalone company, and also consolidated level. You will see improvements further in the current quarter of January to March because the pelletization plant and the coke oven batteries - these are in the final stages of commissioning, will be commissioned in this quarter and at least part of this quarter will reflect the benefits that would come from the commissioning of these units.

We have been guiding earlier that the capital expenditure will be around 4000 Crores in this year but after having seen the necessity or need to implement the ongoing projects, pellet and coke oven in this quarter and the SMS III, melt shop III and the bar mill at Vijayanagar, we have accelerated our capex in this quarter to see that these projects are commissioned in time. We will be exceeding this 4000 Crores guidance which we gave in the second and first quarter of this year.

Now the presentation has been uploaded on the website. You must be having the presentation. So, we will just go through the presentation slide-by-slide and at the end we will take the questions, which you may have in this regard. Jayant Acharya will take the lead.

Jayant Acharya: Good afternoon everybody. The economic side, specially the second half, has seen positive developments from many parts of the world especially the developing economies. Financial conditions have improved in US as well as Europe. We are seeing upticks in various consuming segments on the US side. Europe has shown delta improvements sequentially quarter-on-quarter. So, the developed markets are expected to lead the momentum in this calendar year going forward.

As far as the global steel scenario is concerned, we would see that while the production has moved up about 3.5% we have seen the Chinese side month-on-month drop in production. While China has produced about 780 million tonnes they have reduced their rate of production on the back of environmental concerns in the last few months.

On the consumption side, 1,475 million tonnes was consumed, about 45 million more than last year, out of which about 40 million tonnes was accounted for by China. Going forward we see a consumption of about 1,523 odd million tonnes forecasted, out of that China is expected to be about 721-odd million tonnes. So the delta growth from China contributing in this calendar year 2014 is going to be only 40% as against 90% earlier. So the recovery is broad-based. We are seeing some price upticks in various parts of the world especially during the last quarter, and the inventories have reduced in China and are flattish in the rest of the world.

On the Indian side, I think the demand and the markets have been subdued. The crude steel production in India went up by 4.8% but the growth in demand was only 0.7%. There have been some positives on the economic front with the CAD numbers coming down, Inflation having subdued, some of the stalled projects likely to come in and although the transmission of that on the ground is taking time. And the fact that India became a net exporter of steel in the first nine months of this year.

Going forward we feel that the Indian demand side will take some time to pick up but Indian industry is going to be supported by growing exports especially to the developed markets.

If you look at the operational numbers for the quarter, JSW Steel has achieved the highest ever crude steel production at 3.19 million tonnes, which is up 52% on reported basis and 16% on proforma basis. The sales have gone up to 3.08 million tones – 42% on reported and 16% again on proforma basis. Our ratio of flat to longs remains at 83 : 17. In terms of the exports as Mr. Rao had pointed out we have done about 1 million tonnes of exports ie about 34% of the entire sale was in exports for this particular quarter. We have focused on the value added exports, which we will see in the subsequent slide as we come to that.

The nine monthly numbers, crude steel production 9.03 million tonnes was up by 7% on a proforma basis, 41% on reported basis. Saleable steel sales at 8.76 million tonnes was up by 12% and on proforma basis and 36% on reported basis.

Our sales focus, in the last quarter, has been on exports. We have contributed to about 60% of the country's exports in the last quarter. Our export focus has been across various continents. We are focused on the developed market in Europe, the Americas and freight proximity areas in Asia, Middle East and Africa. However, our strategy has been to focus to develop markets for cold rolled, TMT bars, and coated products where our capacities have either come up or are coming up in the next two quarters.

On the retail side, a similar strategy was in place to increase the value added component, focusing on those where our capacities are coming up. So, the cold rolled sales have increased by about 16%. TMT bars have gone up by 7% and colored by 106%. We have developed markets for these products across various parts of India. We have increased our presence in tier II and tier III cities through the shoppe network. We have initiated 'JSW Explore', which is a branded retail service center and is going to service the products to the consumer as in required basis. Our branded retail sales constitutes about 39% of the total retail sales in the last quarter.

My colleague Rajeev will take you through the financial numbers.

Rajeev Pai: When you look at the Q3, numbers points to two substantial thing in the quarter results. One thing is 'robust operating performance' and the other is 'derisking profile' continuously followed by the company in terms of the hedging strategy.

So, EBITDA for the quarter is 2,303 Crores and this is Rs.7,500 per tonne, 19.3% of net sales for the quarter. You would observe that is there is no exceptional item in the current quarter due to the hedging policy followed by the Company. So profit before tax for the quarter is 954 Crores as compared to corresponding quarter reported 91 Crores and profit after tax is 652 Crores as compared to the corresponding quarter of 137 Crores. EPS has jumped from 5.76 in the corresponding quarter to 26.64 in Q3 FY2014.

This Q3 performance has also got reflected in nine months performance; we can see the EBITDA moving from 4,612 Crores to 6,286 Crores. After providing for exceptional items (in first two quarters) profit before tax is 778 Crores for nine months and profit after tax is 533 Crores for nine months.

In the next slide, slide #14, we can see the EBITDA of Q3 of corresponding period 1,314 moving up in current quarter to 2,303 Crores. There are two major drivers, which are showing improved operational performance: volume growth of 211 Crores and about 250 Crores improvements in the margins. And in addition to that we are seeing 521 Crores is the impact arising from the merger scheme (very strong performance from Dolvi). So, 2,303 Crores is consisting of all these elements.

JSW Steel coated products, which has focus on value added products, has reported production of 0.41 million for the quarter and 0.42 sales for the quarter. EBITDA for the quarter is 79 Crores and profit after tax is 12 Crores for the quarter.

Slide #16 – US plate and pipe mills have shown improved operational performance in terms of plate mills performance increasing from 33% capacity utilization to 39%. Pipe mills capacity utilization is 9% for the quarter. EBITDA loss for the quarter is at $ 1.73 million and loss after tax is $15.22 million for the quarter. For nine months period also, the capacity utilization have shown improvement from 35% to 37% in the plate mill; however, pipe capacity utilization is 7%. Nine months impact on EBITDA is loss of $3.18 million and loss after tax is $45.84 million.

JSW Chile continued its good performance during the quarter. With 231,000 tonnes of sales it earned an EBITDA of $5.23 million and profit after tax is $2.79 million. Even when we look at nine months performance – on 604,000 tonnes of sales, it achieved an EBITDA of 11.43 million and 4.95 million of PAT, which has substantially improved as compared to corresponding period of nine months where it earned 7.59 million EBITDA and 1.25 million PAT.

Slide #18 – when we look at a consolidated financials you would see that the impact of a strong standalone performance and the performance of a JSW Steel Coated and Chilean subsidiary is getting reflected into 2,409 Crores EBITDA on net sales of 13,383 Crores. When you look at consolidated profit before tax for the third quarter, it is 829 Crores as compared to negative 9 Crores in the corresponding quarter. After making a tax provision and share of minority interest, profit after tax for the quarter is 466 Crores giving a consolidated EPS of 18.96 as compared to loss after tax of 74 Crores in corresponding quarter.

Same thing you will see in nine months consolidated performance, EBITDA from 4,771 Crores has increased to 6,637 Crores. PBT is 386 Crores after considering first two quarter exceptional items effect. Profit after tax is negative at 31 Crores for nine months as compared to positive 667 Crores for corresponding period nine months.

Whilst maintaining growth company has maintained its net debt equity at 1.49 in December as compared to 1.44 on September 30. Net debt EBITDA has improved from 3.92 September number to 3.74. Total net debt as on December 2013 is 32,296 as compared to September debt of 30,372 Crores.

With this I will request Dr. Nowal to explain on the projects and iron ore status.

Dr. Vinod Nowal: Good afternoon. This quarter we have commissioned ‘waste heat recovery system at BF-4’ at Vijayanagar. The CTL-6 and CTL-7 at Vijayanagar is going to be commissioned in this financial year.

Main project at Vijayanagar of CRM -2 with auto grades steel: PLTCM was commissioned in October and this month we are going to complete 50000 tonnes saleable product, and CAL and CGL are going to be commission in this quarter only.

Steel Melt Shop at Vijayanagar is at a very much advance stage and is going to be commissioned in this quarter or next quarter. Bar mill-2 is also at a very much advanced stage but it is going to be commissioned in financial year 2015.

Pellet plant at Dolvi is under trial- runs and heating at coke oven batteries have started, both of these are going to be commissioned in this financial year.

Up-gradation projects of Pickling line number two at Tarapur has been completed in December 2013. A new 6-Hi Mill at Kamaleshwar is going to be commissioned in this financial year.

Updates on iron ore: as on today 23 mines are running including two mines of the NMDC, with a production 18 million tonnes per year. And there are another three to four mines ready to start, awaiting for small clearances. Hopefully by end of this financial year there will be availability of additional 1 million of iron ore. The total availability will be for next financial year April will be around 20 million.

Yesterday the matter was in the Supreme Court and the Supreme Court has given direction to the government of Karnataka as well as the government of India to file a affidavit with a detailed time bound action plan for the balance A and B mines (whether it is possible to provide additional 10 million iron ore) on 25th. Then court may decide: how more iron ore can be provided, whether few mines can operate at higher capacity (because we have put a request to the court as availability is hardly 18 to 20 million tonnes). We have also requested that C category mine should be auctioned or third option is the fresh mines be given.

There will be good chance in the next financial year, may be 5 to 6 million tonnes additional quantity can come this way. Thank you.

Pritesh Vinay: Thank you very much. Pinakin, we can now open up for Q&A.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from Giriraj Daga of Nirmal Bang Equities. Please go ahead.

Giriraj Daga: Good afternoon Sir. First of all, great set of numbers in terms of volume and EBITDA. Sir, I have a couple of questions; first what is the forex rate that we have booked in the realization this quarter and what is the forex rate that we have booked in the cost also if you can give that number?

Seshagiri Rao: Forex as I mentioned to you last time, we have booked on both the sides exports and imports. I do not know the correct amount, but it is in the range of between 64 and 65..

Giriraj Daga: So the exports, whatever we have booked in million tones, have been booked at that rate of 64 and 65. Similarly the cost of our iron ore coking coal also has been booked at the similar level?

Seshagiri Rao: Yes.

Giriraj Daga: Why the other expenses has gone up like substantially if I look at on quarter-on-quarter basis?

Seshagiri Rao: Other expenditure has gone up majorly due to hedging cost, which is coming here. Every quarter it will be at 200 Crores approximately the hedging cost on the overall imports we are booking. That is compensated by way of higher NSR on other side. So overall hedging cost is zero.

Giriraj Daga: So 200 Crores is cost?

Seshagiri Rao: Yes.

Giriraj Daga: You have said the capex but has the total number gone up? Like we were talking about 10750 Crores for the three years capex?

Seshagiri Rao: Overall 10,750 Crores is not going up. but what we have mentioned last time that we are moderating expenditure in this year and postponing part of this expenditure to the next year. We will not be able to contain that if we have to commission these units as per the plan. That is why we are increasing the expenditure in this year itself, thereby the coke oven and pellet plant will be commissioned in this quarter and we will get the benefit. Similarly the melt shop and the bar mill will get commissioned in the next quarter at Vijayanagar, because we have now started spending the money, which we were holding back earlier.

Giriraj Daga: If I look at the EBITDA Bridge, you are saying the amalgamation EBITDA is something like 521 Crores this quarter, slide #14. So, should we assume that this is normally a Ispat EBITDA?

Seshagiri Rao: I would not say exactly it does match that way, but it is in that range. It is a combination of two to three factors. One is as the part of the merger Dolvi came in JSW Steel standalone. And Vasind and Tarapur went out, and the Kalmeshwar, which was earlier part of the ISPAT, went out to become part of the JSW Coated. So this is Vasind and Tarapur EBITDA going out and the Dolvi coming in. This is the net impact.

Giriraj Daga: This is the net. because the number if I look at for the last three quarters from 233 Crores to 370 Crores and now to 521 Crores, so that number has continued to going up.

Seshagiri Rao: As we have been guiding that the Dolvi operations are improving, we have commissioned our power plant of 55 MW, we have commissioned now LCP plant that is lime calcination, similarly we have commissioned our railway siding. So these three projects are contributing to the EBITDA of Dolvi unit. In addition to that APM gas that is also available little more than what was there in the earlier quarters. That also contributed to the EBITDA.

Giriraj Daga: The reason I was asking this question was simple because if I look at you are selling 0.65 million tonnes at ISPAT so the EBITDA comes to close to over Rs.6,500 to Rs.7,000 per tonne, which is close to JSW, a bit lower than but closer to what JSW was doing. I was thinking can there be a further improvement from here on also in ISPAT?

Seshagiri Rao: There will be an improvement because pellet plant and coke oven battery are yet to be commissioned. That benefit has not come.

Giriraj Daga: So you believe that there will be a further improvement from here also?

Moderator: Thank you. We will take our next question from Nitesh Jain of Axis Capital. Please go ahead.

Nitesh Jain: Thanks for the opportunity. Sir, how are we sourcing iron ore for our Dolvi plant currently?

Seshagiri Rao: We are getting iron ore both from Odisha and Chhattisgarh. These are the two states from which Dolvi is sourcing its iron ore requirement.

Nitesh Jain: Through sea route?

Seshagiri Rao: Yes.

Nitesh Jain: There is no import as such of iron ore?

Seshagiri Rao: In the last quarter there was no import.

Nitesh Jain: Sir, my second question is if you could on a blended basis, company as a whole we have done about 7500 EBITDA per tonne and if you could give us even though it is a rough number the profitability of these three business components one is Vijayanagar, the second is Dolvi and the export?

Seshagiri Rao: The only thing which we can clarify here is that definitely Vijayanagar is the highest among all the three locations.

Nitesh Jain: Vijayanagar domestic sales basically?

Seshagiri Rao: Vijayanagar EBITDA per tonne whether it is domestic or exports that is the highest among the three units. There is a scope or a large scope for improvements in Dolvi to catch up with Vijayanagar. So there can be a possibility of improvement in EBITDA. That much we can give the guidance, but we are not giving the breakup of each location.

Nitesh Jain: No problem Sir, but directionally within Vijayanagar the export profitability would be lower than the domestic sales?

Seshagiri Rao: No. Today, because we are booking our exports and we are getting premium also on the booking, so the realization in rupee terms is more or less equal to the domestic realizations. So the EBITDA margins either domestic or exports are almost the same.

Nitesh Jain: Even considering the freight cost to the port?

Seshagiri Rao: Yes.

Nitesh Jain: Thank you so much for the answers.

Moderator: Thank you. The next question is from Naveen Gupta from Goldman Sachs. Please go ahead.

Naveen Gupta: Two questions; one is on the tax. If I look at the standalone and the consolidated tax rate was 32% and 45% in the quarter so just wanted to know how should we look at the tax rate going forward and also if you can clarify how much carry forward losses you have from ISPAT and have you accounted for any tax loss from ISPAT in the quarter? Second question is given the approvals that have come in mining in Karnataka about 3.3 million tonne incremental mining in the approvals in this quarter are you looking at upping your guidance in terms of production, volume next year? Thank you very much.

Seshagiri Rao: As far as tax provision is concerned, even though PBT in the consolidated number is lower than the standalone company the tax provision in the consolidated number is higher majorly two reasons. The tax provision is summation of the tax provisions made in the respect standalone companies, subsidiaries and Standalone Company. Therefore even though some subsidiary is incurring loss, that loss cannot be set off when you are calculating the tax provision. Therefore when PBT is lower on the consolidated level fiscal consolidation is not permitted. The tax provision is summation of all the tax provisions excluding the losses that have been there in the subsidiaries, therefore the tax provision in the consolidation is higher.

The second question as far as ore is concerned, yes the opening up of the Sesa Goa mine recently will improve the iron ore availability but it is quite short of what is the requirement of the industry. So even including the Sesa Goa incremental production, what is available as Dr. Nowal clarified is only 18 million tonnes as against 30 million tonnes at the current utilization of the steel companies and the pellet plants and the sponge iron plants in Karnataka. So their requirement will be higher if every company works at full capacity, it is 40 million tonnes. Therefore considering the requirement what is available including the Sesa Goa mine is significantly lower than the demand. So in that context we have been representing to the Honorable Supreme Court, monitoring committee, CEC, state government with a clear-cut plan how this iron ore availability can be augmented as early as possible thereby the steel industry will get adequate supply of ore. We are hopeful that the steps would be taken and in the next year iron ore supply will improve. As far as guidance for the next year is concerned, we are working out the numbers. We have already said in this year that we will produce 12 million tonnes as against installed capacity of 14.3 million tonnes. So definitely it will be higher than the 12 million tonnes. We will fine tune the numbers and then we will come back to you in the next analyst meet what would be the guidance for the next year.

Naveen Gupta: Sir just followup on the tax thing, for ISPAT what was the tax benefit that you have got from the carry forward losses in the quarter and what is the carry forward loss outstanding as of the end of this quarter?

Seshagiri Rao: Total when we consolidated the number from July 1 it was around 9000 Crores for the outstanding tax losses in the books of JSW ISPAT, which got carried forward. We started adjusting for the last two quarters. It started coming down. I will not be able to give you correct number how much we have adjusted because there are a combination of factors like 80-IA benefit and a lot of things, which will come in tax computation, but taking into account the kind of projects we have in the next four years time, we will be able to absorb this accumulated losses which are coming on account of merger.

Moderator: Thank you. Our next question is from Prasad Baji of Edelweiss Securities. Please go ahead.

Prasad Baji: Thanks for taking my question. This is related to the acceleration of capex and the debt also that we are currently having, so it appears that considering the acceleration we have taken new loans of 5000 Crores and that is the reason for the debt increase and secondly as part of this where do we see the net debt peaking considering the acceleration of our capex?

Seshagiri Rao: If you see this slide, there is a new loan taken 5,019 and at the same time, we have prepaid 2,300 Crores so net-net the increase is only 2700. Out of that 800 Crores is the normal repayment. So, the actual increase in the debt is only 1,900 Crores if you look at quarter-on-quarter or September 2013 vs. December 2013. This amount majorly has gone in the working capital improvement. We have reduced our acceptances. We were at a level of $1,500 million plus as on September 30, if you look at December 31, it is $1,382 million. We are reducing acceptances, putting in more money in the working capital. That is how the overall debt has gone up, not on account of capex.

Prasad Baji: So I was thinking that maybe capex acceleration is causing the net debt increase. Nevertheless do we see because the earlier impression was net debt has already peaked so therefore we wanted to check on the increase that we have seen in this quarter, so nevertheless where do we see the net debt going forward? Are we expecting or should we expect an increase in net debt?

Seshagiri Rao: We have already again mentioned about what is the overall debt equity we would like to maintain that is we are saying we desire to have 1.5, similarly the debt to EBITDA we want to bring it down to 3.5 and bring it down further. So, instead of saying what is the peak debt we will focus on relative ratios. So we will not exceed this. Today, the debt to EBITDA is higher than 3.5 but we are very confident that we will be able to bring it down, debt to EBITDA also 3.5 and below. Debt equity today at 1.49 on consolidated basis, we do not allow it to go up beyond 1.5 definitely.

Prasad Baji: Understand. Second question on the iron ore front, we have seen reports about the e-auction prices rising in the December quarter in Karnataka. So what was our average landed cost for iron ore in Karnataka? Last quarter I remember it was around Rs.3,000 so has it gone up and to what extent?

Seshagiri Rao: Yes, it has gone up. It has gone up by Rs.330 approximately in Karnataka and at the same time the quality also deteriorated. So therefore for per tonne of steel produced the iron ore consumption is higher in this quarter. So there is a negative impact on account of iron ore, but it is more than neutralized as I mentioned to you due to various operational efficiencies plus coal prices to some extent have come down in this quarter. So, all this together neutralized and improved the EBITDA margin.

Prasad Baji: I have other questions, but I will join the queue. Thanks.

Moderator: Thank you. Our next question is from Sandeep Bansal of UBS. Please go ahead.

Sandeep Bansal: Hello everyone and thanks for the opportunity. Sir, the first question is related to the pricing of iron ore. You said Rs.330 is the higher price you paid in December or is the price increase in January over the quarter Q3?

Seshagiri Rao: This is on consumption basis during October to December. it is Rs.330 over sequential/Q2.

Sandeep Bansal: We understand the prices have increased further in January. Would it be possible at your end to quantify that increase?

Seshagiri Rao: It is going up. It is very difficult to say at this stage how much it would go up because there are different grades of iron ore being auctioned, but the high grade material is going at substantially at a higher premium whereas low grade also is at a premium but relatively at a lower premium. So it is one number it is very difficult to give that how much premium it would be going.

Sandeep Bansal: Sir, my next question is on the accounting for hedging. What I understand is that some part of the hedging costs are also taken to the balance sheet because you have a six months buyer’s credit while you do the hedging accounting every three months. So, can you just explain to us what portion has gone to the balance sheet? You have already told that 200 Crores is what you have booked in other expenses?

Seshagiri Rao: Here whatever hedging costs on imports entirely will come to the P&L. So that has come. So that is in the range of 200 Crores. Similarly, the realizations on exports whatever is made during the quarter so that has come to the sale realization account. So that is how the hedging cost is neutralized by way of a higher realization. As regards to outstanding import cover and outstanding export covers are concerned, the export covers whatever profit that would be lying in the export cover. They will go into the hedging reserve in the balance sheet. That is the future exports. As and when the exports happen that will come in the P&L.

Sandeep Bansal: Sir, what about the hedging costs from the acceptances?

Seshagiri Rao: That is part of the imports. So it is coming as the cost in the other manufacturing expenses, which I clarified why the other expenditure in the P&L has gone up. That has gone up majorly due to hedging costs.

Sandeep Bansal: Sir, just to understand this, since we have a six months buyer’s credit the entire hedging cost has come in the other expenditure while let us say on the export side, part of the benefit had gone in the balance sheet. Is that a correct understanding?

Seshagiri Rao: When you take a cover let us say for six months then actual exports takes place. The entire six months premium will come in that respective sales realization, but outstanding export covers are concerned, in that any profit is there (profit or loss) that would go to hedging reserve account. The premium starting from August 2013 (when we started booking exports) till the end of September 2013/the profit on the outstanding exports cover (on whatever exports have been made in this quarter) have not gone to P&L in September quarter. That was lying in the balance sheet. So when actual exports took place entire premium which went to balance sheet as on September 30 plus the premium for the current quarter both came in this quarter.

That is why the sales realization and the hedging cost henceforth will be equal when the exports and the imports are same.

Sandeep Bansal: Fine Sir, understood. Thanks a lot and all the best for the future.

Moderator: Thank you. Our next question is from Neelkanth Mishra of Credit Suisse. Please go ahead.

Neelkanth Mishra: Congratulations on some excellent numbers and great delivery on exports. My question is on exports. What is the sustainability of the export market? Given that we are again starting to see signs of weakness in China only time will tell if this is through the Chinese New Year or something bigger, so are you really dependent on pushing a certain quantum out and coming to you to a certain volume which may not even be profitable? Since you could give some color on the relative attractiveness of these markets and at what price and what price differential you would continue to export?

Jayant Acharya: On the export side, as you will see in one of our slides we tried to project some part of the strategy that we have been focusing on the value added part of the export as well apart from the volume. So the content is increasing towards the value added mix. We are trying to also focus on the developed markets which are North America, Europe, and South America, and trying to develop markets for these products, which will increase our overall sales realization and margins as well. The Chinese weakness or rather as you said the Chinese concern, I think, would be an advantage for India because China has reduced the production on environmental concerns and last year they had an incremental export of over 6 million tonnes. So, I think, there would be an opportunity for India to really capture some of the markets going forward. And especially with the developing markets growing I think exports would be sustainable.

Neelkanth Mishra: If you could just throw some color and this is for the record. This is the continuation of the same question the current pricing trends, do you see better realizations like-to-like in export markets versus in India?

Jayant Acharya: It is like this today the export realization as we speak for the last quarter was similar and in some of the products like coated, actually the export realizations were even better than the domestic. I would say it depends on the composition of the market mix and the product mix on quarter-to-quarter basis. Last quarter was similar. We expect a similar kind of thing to be there for the next quarter as well especially on the value added side.

Neelkanth Mishra: Thank you. My second question is on your capex guidance for FY2015 and where would you expect your net debt to land up by the end of FY2015?

Seshagiri Rao: The way we have been giving guidance about total 10,500 Crores we are keeping 10500 Crores remain unchanged, but earlier we have given a guidance of 5,500 Crores in the current year later we said we are moderating our capex and we will bring it down to 4000 Crores in this year whereas now we may have to spend the full amount this year if we have to commission all these plants in this quarter and also the melt shop and the BRM and CAL, galvanizing line at Vijayanagar we need to spend this amount. That is why we are saying we have again sticking to the original schedule of 5,500 to 6,000 Crores in this year itself. Overall we will remain same in the three year period.

Neelkanth Mishra: Thanks so much.

Moderator: Thank you. Our next question is from Dhawal Doshi of Phillip Capital. Please go ahead.

Dhawal Doshi: Sir Congratulations on the good set of numbers. Sir, just on the FY2014 number per se if I were to look at your nine months crude sale production annual guidance that implies that the fourth quarter numbers will be lower than the third quarter numbers. So, are we looking at upping our FY2014 guidance?

Seshagiri Rao: Today, if you see it is a marginal improvement as far as the overall production guidance is concerned. When we said 12 million, we should have done 9 million. We have done 9.07 million. So, it is very marginal. I am not saying significant, but we will confer to you, we will definitely achieve 12 million tonnes if not a little more, but it will not be substantially different, then I have to give the guidance differently, but we will be 12 million tonnes plus.

Dhaval Doshi: Thank you very much.

Moderator: Thank you. Our next question is from Bhavin Chheda of Enam Holding. Please go ahead.

Bhavin Chheda: Good afternoon Sir. Just on the capex thing, this year you said it would be 5,500 to 6,000 Crores what would be the FY2015 number?

Seshagiri Rao: Earlier we had given a guidance of 4000 Crores without postponing 1,500 Crores from this year to next year. So, now that is getting preponed. Preponed means original schedule of 5,500 Crores it will be range of 4,000 Crores next year.

Bhavin Chheda: Which means that 10,500 Crores, which was pending and supposed to be spent in three years actually has been spent in two years right?

Seshagiri Rao: No. For instance in this year let us say 5,500 Crores I am spending 4,000 Crores next year so 9500 Crores, balance 1000 in the last year.

Bhavin Chheda: Balance 1000 in the last year, so basically you are front ending the pending capex?

Seshagiri Rao: No, we are sticking to the original schedule, original schedule of 5,500 Crores, we have given guidance so that we will be doing. If at all any we exceed then we are preponing from the next year to this year.

Bhavin Chheda: As of now you had put on hold the further expansion of Vijayanagar to 12 million so you are not reviving that project or any other project for next year?

Seshagiri Rao: We have put it on hold the sinter plant and the coke oven battery at Vijayanagar whereas the melt shop and the BRM that we have not put on hold that is continuing because the DRI plant is getting commissioned in this quarter, January to March. So we have to process the DRI then the melt shop and the BRM is essential that is why we never put it on hold. So that will come on stream, but the other plan of sinter plant and the coke oven battery, we have not revived. Those plants are put on hold, which will really increase the capacity.

Bhavin Chheda: What was the actual landed cost of iron ore and landed cost of coking coal in the quarter?

Seshagiri Rao: Landed cost of iron ore is Rs.3,330 which is the landed cost of iron ore at Vijayanagar. This is the weighted average of all the grades.

Bhavin Chheda: Coking coal would be?

Seshagiri Rao: $165 around is the C&F cost.

Bhavin Chheda: Sir, the November and December premiums in Karnataka e-auction, which had gone up substantially has it been captured in this landed cost or that would have been in the inventory and we can see the higher iron ore cost in January to March?

Seshagiri Rao: Part of it got reflected. There is 1 million tonne, which we already brought and which we have not consumed as on January 1 so that is not getting reflected here. Otherwise balance all came in.

Bhavin Chheda: Last one if you can share the acceptance number both revenue and capital as on December?

Seshagiri Rao: $1,382 million as far as revenue and capital is $342 million.

Bhavin Chheda: Thanks a lot.

Moderator: Thank you. Our next question is from Saumil Mehta of IDFC Securities. Please go ahead.

Saumil Mehta: Thanks. Most of my questions have been answered. Sir, just wanted what kind of benefits should we assume with the pellet plant and the coke oven plant in Dolvi, a very rough per tonne, cost saving would be?

Seshagiri Rao: We are not giving specifically what could come in, the majorly today pellets are being bought at $170 C&F per tonne that I think is substantially lower if we have the captive. Similarly coke, coke is also being bought at around $275 whereas if we produce coke taking into the gas benefit, coke oven gas benefit it will be substantially lower. So how much we are not quantifying right now, but there will be big upside, which could come from these two units such as backward integration from Dolvi unit.

Saumil Mehta: Sir, my second question on tax, I just heard the explanation is it fair to assume that the tax rate in subsequent quarters, would be similar to what we saw in Q3 or they could even come down because there was some adjustment in provisioning?

Seshagiri Rao: As we have covered in the presentation, once the US plate and pipe mill start turning around, similarly US coal mines, once we commission our wash plant in the month of June 2014 then the losses, which are coming in from these two units will substantially come down. Then the provision will get corrected.

Saumil Mehta: Thank you. That answers me.

Moderator: Thank you. Our next question is from Chirag Shah of Barclays. Please go ahead.

Chirag Shah: Thank you. Just a couple of quick questions; Sir, we have reduced the revenue capital acceptances that we had during the quarter would you say that was it related only to the fact that the outstanding coking coal contracts have come down or is there a change in thinking in the way, if we look at the capital acceptance, financing?

Seshagiri Rao: As far as revenue is concerned, the prices have also come down, that is the reason why it is consistently coming down. As far as the capital acceptances are concerned, as and when the statutory period of these two to three years as per RBI guidelines it is over then we will pay. So, they are getting over for the old projects, so they are getting repaid.

Chirag Shah: There is no reduction in the number of days of revenue acceptances?

Seshagiri Rao: No.

Chirag Shah: Sir, my second question is on the realization. If I adjust for the forex hedging cost how much would you say that or how much would be the quarter-on-quarter increase in realizations according to you?

Seshagiri Rao: We have not done that working, but as I mentioned to you it is almost the same, so EBITDA number will remain more or less same.

Chirag Shah: Sir, but on the revenue line, if I were to look at quarter-on-quarter the only impact will be the 200 Crores or are there other impacts too on account of the forex hedging accounting?

Seshagiri Rao: It is the same. There is no impact, no further impact.

Chirag Shah: Thank you.

Moderator: Thank you. Our next question is from Pallav Agarwal of Antique Stock Broking. Please go ahead.

Pallav Agarwal: Good evening. Sir just a question on the price hikes that we have taken, when there was an announcement of price hike of up to Rs.1200 per tonne and I think in January at the beginning of the year we have announced an earlier price hike, so even the domestic demand is pretty subdued what is the acceptability that we are seeing the market for these price hikes?

Jayant Acharya: The price hikes which we announced just now are in the range of 1% to 2% and vary across product lines. We basically increased prices are on account of iron ore cost, as we discussed the iron ore cost due to various reasons is high, lower grade higher freight from Odisha, scarcity in the iron ore availability in Karnataka that has pushed up our cost in January as well. So that is one reason. Secondly the international prices to domestic prices, the domestic prices are still lagging behind. So that gives us an opportunity to us to look at some increase to pass on the cost, and third is on the value added side, especially products like cold rolled, coated and some other items, the transmission of the increase was not fully done as in the base steel prices. So there the impact would be slightly more, that is why in the range of 1% to 2%.

Pallav Agarwal: So overall these actually could go through and you could see the benefits probably coming in Q1 FY 2015 the major portion of these price hikes should pass through?

Jayant Acharya: Yes it would.

Pallav Agarwal: Thank you.

Moderator: Thank you. The next question is from the line of Sanjay Jain of Motilal Oswal Securities. Please go ahead.

Sanjay Jain: Thanks. I would like to understand the new steel melt shop that we will be commissioning in the first quarter next year, what will be the addition to the crude steel total? That is one. Secondly, on the Dolvi plant we will commission the pellet plant so how will we be sourcing the additional iron ore requirement. Would it mean higher production of crude steel at Dolvi?

Seshagiri Rao: In the case of Dolvi instead of buying the pellets, they will be buying the iron ore. So overall iron during the material I do not think it will undergo a change. Of course the sourcing of pellets instead of that it will become sourcing of iron ore fines. At Vijayanagar as I stated, the DRI unit 1.2 million tonnes that is getting commissioned in this quarter, by the end of this quarter. So, there is 1 million tonne additional DRI will be available and to process that this melt shop will come. But overall capacity will go up beyond 10 million tonnes, which we have today, to the extent we can get the iron ore.

Sanjay Jain: If I go by your earlier guidance you have said that there is 0.5 million tonne increase in the production, salable steel production in FY2015 over FY2014, you stand by those numbers as of now?

Seshagiri Rao: We are fine tuning the numbers based on the DRI commissioning and also the BRM complex which will get commissioned in the first quarter of next financial year. So that is why the production guidance for the next year will be higher than definitely 12 million tonnes. How much it would be we will be able to clarify in the next analyst meet.

Sanjay Jain: Thanks so much.

Moderator: Thank you. Our next question is from Kamalesh Jain of Prabhudas Lilladher. Please go ahead,

Kamalesh Jain: Thank you Sir. Basically the question is regarding this EBITDA per tonne in this particular quarter. On the standalone side, if I see the EBITDA per tonne that is roughly around 7478 rupees in this particular quarter and if we see quarter-on-quarter it is hardly an improvement of say Rs.350 odd quarter-over-quarter, so as we say that we have the higher realization but that has been negated by our hedging cost, so effectively we have like despite having Rs.2500 of increase in realizations, our EBITDA has improved by hardly Rs.350 quarter-on-quarter?

Seshagiri Rao: As I have been talking about the iron ore problem, iron ore quality deteriorated. There is huge fuel consumption. Productivity came down, iron ore prices we are paying more. So, the impact of that itself is close to Rs.800 to Rs.1000 per tonne. We have not only neutralized that impact and still showed an improvement in EBITDA. So therefore the recent increase in the sales realization that has also reflected when we gave you EBITDA bridge how much is on account of volumes, how much is on account of NSR. So therefore there is an improvement on account of NSR which has flowed in this quarter and if you take into account the iron ore cost increases I think there is a significant improvement in the EBITDA margin if we do not take iron ore cost.

Kamalesh Jain: But how is the situation currently like has that improved or is it at the same level which was in the previous quarter?

Seshagiri Rao: It is continuing because iron ore availability remains a challenge. Today, only 18 million tonnes even after Sesa Goa commissioning available as against 30 plus requirement of the industry and the dumps are getting exhausted. So therefore iron ore prices remains at a higher level.

Kamalesh Jain: Thank you very much Sir.

Moderator: Thank you. Our next question is a followup from Prasad Baji of Edelweiss. Please go ahead.

Prasad Baji: Thanks. Just a data to check; we sold 1 million tonnes total volumes what would be the breakup in exports on the coated products subsidiary and from the standalone?

Seshagiri Rao: We will just give it to you in a minute. As far as the exports are concerned, from JSW Steel it is 813,000 and coated is 234,000. Total is 10,47,000.

Prasad Baji: That is fair. Just one other followup; we are hearing about auction of category C iron ore mines. I think Mr. Nowal also mentioned about it. Is that a possibility in FY 2015 basis or is it just at a very early stage?

Dr. Vinod Nowal: This is as per the direction of the Supreme Court, government of Karnataka has started the process of this. So, we can hope say by six months to 12 months time, some result will come out of this.

Prasad Baji: Thanks.

Moderator: Thank you. Our next question is from Bijal Shah of IIFL. Please go ahead.

Bijal Shah: Congratulations on a very good numbers. My question is again on iron ore availability. Now we seem very confident about 12 million plus guidance and the availability at this point of time we can say it with all certainties 18 million and it can go to 20 million or so where this additional iron ore will come from. What are the sources, which we are banking upon that we can meet 12 million plus guidance?

Seshagiri Rao: Today as we have been mentioning that there is 1 million tonne where iron ore is bought and not consumed that is around January 1, there is another 4.5 million tonne dumps which are yet to be auctioned over and above the 18 million tonnes production, new production on an annualized basis which will come. So taking that into account this 4.5 million tonnes of dump plus 1 million tonnes of stock up to June we do not anticipate any issues. So from June onwards assuming that no further iron ore mines are opened then what is available is only 18 million tonnes. So we have to see what has to be done from July.

Bijal Shah: So, then the 12 million tonne would also be slightly contingent upon what goes into the court proceeding and how things shape up? Would it be a correct assessment?

Seshagiri Rao: For this 18 there is no question, 18 million tonnes is already operating.

Bijal Shah: That is right 18, but…?

Seshagiri Rao: Balance 12 you are saying, okay. Balance 12 there are lot of agencies which are involved. There is a monitoring committee. There is a CEC. There is state government. There is Supreme Court. So this 12 million tonnes is contingent upon some of them acting, at least not all of them. If all of them act the entire thing will come, if some of them act some will come. So we are reasonably hopeful that some of them will act and the position will improve. So at least to give you an idea in that the way we are working on is that there are six mines where all approvals are in place where monitoring committee only has to say yes. That is around 0.75 million tonnes. So we are expecting that that will come. The second area where we are focusing there are existing nine mines where they are capable of producing more at least by another 4 million tonnes subject to the Supreme Court says yes you go ahead. So that 4 million tonnes if it comes then another 4 million will go up. Then there are another 19 mines where some approvals are pending with the state government, some approvals are pending with the ministry of environment. If they give the clearances another 4 million tonnes will come. So 4 + 4 + 1 is equal to 9 million extra can come in if all these people act on this. In addition to that if I look at R&R plan approved versus whatever I talked about balance mines if they get opened there is a possibility of 30 million tonne being available so therefore we are reasonably hopeful at least some of these things would happen and the iron ore situation will improve.

Bijal Shah: Sir, at this point in time our own requirement considering some blended grade would be closer to 18 million tonnes out of that 30 million tonnes potential 30 million tonnes?

Seshagiri Rao: That depends on which grade of Fe is being sold.

Bijal Shah: But Sir you have to go with some assumption or some blended grade, so 17 to 18 would be close to fair assumption?

Seshagiri Rao: Let us say 61 to 62 is available then we may need around 17 million tonnes.

Bijal Shah: That is it from my side. Thank you very much.

Moderator: Our next question is from Shashank Kanodia of ICICI Direct. Please go ahead.

Shashank Kanodia: Good evening gentlemen. Thanks for the opportunity. Sir, you just mentioned that out of the amalgamation benefits that we received this 521 Crores is basically ISPAT coming on stream and Tarapur & Vasind going out which effectively means EBITDA of around 600 Crores for ISPAT. So is my understanding correct which corresponds to around Rs.7500 to Rs.8000 EBITDA per tonne?

Seshagiri Rao: Now if we see as far as this is a combination of two, what has gone out and what has come in both together if I say it is 521 Crores if I say the Vasind and Tarapue is not considered here it will be higher than 521. I have to find out what is the number.

Shashank Kanodia: Because we already mentioned for the coated products our EBITDA is 79 odd Crores. So it gives ISPAT EBITDA of around 600 Crores and so at a rate of 0.77/0.78 it gives an EBITDA of around 7500, is it true?

Seshagiri Rao: Coated products include Kalmeshwar, Vasind and Tarapur. Again you have to take that what is pertaining to Vasind and Tarapur. It cannot be arrived in that manner.

Shashank Kanodia: Lastly on the global steel prices what is your outlook considering the recent softening of the coking coal and the iron ore prices?

Jayant Acharya: The global steel prices have seen an uptick in the month of January and we have seen about $15 to $20 move up across various products. January March is usually a quarter where seasonally you see improvements plus the stock levels across various countries have been quite low. So there is a restocking demand which is coming in, in addition to the fact the developing countries are improving their demand as well. So I think in the quarter January to March the price increases would sustain. We need to see how the Chinese impact comes after the lunar site. Then we will take a call. On the future that is going forward April to June.

Shashank Kanodia: Lastly on the coking coal cost, are we seeing some benefits out of reduction in coking coal cost globally on procurement basis?

Jayant Acharya: Coking coal prices I think are subdued. As of now if you see the spot prices of coking coal have come down and we expect them to remain range bound with a negative bias.

Shashank Kanodia: Thank you so much.

Moderator: Thank you. Our next question is from Kaushal Chandrana of Anvil Wealth Management. Please go ahead.

Kaushal Chandrana: Can you share like how many days of coking coal inventory usually we keep at company level? Second question is what is the outlook of plate and pipe utilization move in Shale gas in US?

Seshagiri Rao: As far as coking coal inventory is concerned, total it will be between 45 to 60 days including what is lying at port, what is in the sea, which is under transportation. So that is the inventory level which we maintain. Then as regards to plate and pipe mill in the US the plate mill capacity utilization you must have seen in our presentation, it improved. It is now at 39%. Seeing the traction which is happening from the user industries, so we expect the capacity utilization is likely to go up in the quarters to come.

Kaushal Chandrana: Thank you Sir. That is all from my side.

Moderator: It is a follow-up question from Giriraj Daga of Nirmal Bang Equities. Please go ahead.

Giriraj Daga: Sir, I would like to understand this tax thing. Like we are paying MAT credit so 20% is the outgo whether it is 45%, is my understanding right?

Seshagiri Rao: Actual outflow is only MAT.

Giriraj Daga: What is the percentage of iron ore we sourced from outside Karnataka this quarter and for the first nine months?

Seshagiri Rao: On an average we are procuring outside Karnataka around 2 lakh tonnes per month.

Giriraj Daga: This is throughout the average for the nine months you are talking about?

Seshagiri Rao: Yes, for Vijayanagar.

Giriraj Daga: For Vijayanagar only. Thank you, Sir.

Pritesh Vinay: Thank you very much Inba. I would just like to hand the floor back to Mr. Rao for his closing comments and then we can wrap up.

Seshagiri Rao: As I have outlined about the current quarter performance where we have shown an improved operating EBITDA per tonne and also volume growth and more exports. This quarter January to March there will be further upside, which could come on account of commissioning of backward integration projects: pellet plant in the coke oven battery at Dolvi. Similarly, our export momentum is expected to continue due to rupee depreciation which is happening and internationally the steel prices are showing an upward bias due to improvement in the developed markets where the automobile sector and the residential construction and the energy sector are doing extremely well that should stimulate steel demand. So taking that into account 2014 is expected to be better for the steel industry worldwide/globally compared to 2013. So, JSW Steel is in a better position to leverage this benefit by way of higher exports and also the backward integration of projects getting commissioned and installed capacity 14.3 million tonnes is slightly going up on account of DRI getting commissioned so higher volumes, backward integration completion plus operational efficiencies all together the future is expected to be better for JSW Steel. Thank you very much.

Pinakin Parekh: Thank everyone for attending the call. Good evening.

Moderator: Thank you very much Sir. Ladies and gentlemen on behalf of JP Morgan India Private Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.