

“JSW Steel Limited -1QFY15 Earnings Conference Call”**August 01, 2014, 4.30pm (India Time, UTC/GMT +5.30 hours)**

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

Call host: Mr. Kawaljeet Saluja, Head of Research, Kotak Institutional Equities

Moderator: Ladies and Gentlemen, Good Day, and Welcome to the JSW Steel Q1FY15 Earnings Conference Call hosted by Kotak Institutional Equities. As a reminder, all participants' lines will be in the listen-only mode, there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand over the conference to Mr. Kawaljeet Saluja from Kotak Institutional Equities. Thank you and over to you.

Kawaljeet Saluja: Hi, everyone. This is Kawaljeet Saluja from Kotak Institutional Equities. It is a pleasure for us to host this call. We have with us the Mr. Seshagiri Rao from JSW Steel to discuss 1QFY15 Results. I will now hand over the call to Pritesh, over to you Pritesh.

Pritesh Vinay: Thank you Kawaljeet. Good Evening everyone. On behalf of JSW Steel, I welcome all of you to this earnings call to discuss the 1QFY15 Results.

With us we have the senior management team of JSW Steel – represented by Mr. Seshagiri Rao, Joint Managing Director and Group CFO; Mr. Jayant Acharya, Director, Commercial and Marketing; Dr Vinod Nowal, Deputy MD and other senior members of the management team.

So in order to keep the format efficient, I will hand over the floor to Mr. Rao who will spend a few minutes in giving key highlights of the performance of the quarter and then we will dive straight into Q&As.

The Presentation, Results, and Press Release are already uploaded on the website; I am sure all of you have gone through it. So without much ado, I would hand over the floor to Mr. Rao for his opening remarks. Thank you.

Seshagiri Rao MVS: Good Evening everybody. I will just give the major highlights of the performance of JSW Steel in 1QFY15. We have achieved crude steel production volume of 3.1 million tonnes, which is a growth of 8% compared to the corresponding quarter of last year. Sales volume was at 2.88 million tonnes, a growth of 13%YoY. What is very important to note is that the operating EBITDA, when the volume of sales went up only by 13%YoY and the net sales went up by 23%YoY, went up by 41%YoY. The operating EBITDA margin is at 21.3% – higher by 2.6% compared to the corresponding quarter of last year. The profit after tax was Rs.801.37 crores, which is also quite a good number, taking into account the challenges which are there in the marketplace, particularly availability of Iron Ore. The operating EBITDA improvement is attributable majorly to three reasons. The first reason is that the value added products in the overall product

mix has improved from 25% in the corresponding quarter of last year to 29%, mainly due to commissioning of our CRM-II Phase-I and the CGL at Vijayanagar. These two together has made us to improve our value added products, both adding to the top line as well as to the bottom line. The second reason for improvement in EBITDA is completion of the backward integration projects at our Dolvi Unit, where we have commissioned Coke Oven plant and Pellet plant. So in Q1, we were able to substitute 47% of our Coke requirement at Dolvi from our captive coke plant. Similarly, 76% of our total pellet requirement at Dolvi was substituted by captive source. This reduced our cost of production and added to the bottom line substantially in this quarter. The third reason is falling Coking Coal prices where the average coking coal price in this quarter was \$151 dollars –a net reduction of \$15/t in the Coking Coal price. These three are the major reasons which subscribed to the improvement in EBITDA margins. This could have been much better if Iron Ore is available within Karnataka or within Odisha of good quality, then not only we could have improved our margins, but we could have also improved our productivity.

Coming to the “Consolidated Results” our gross sales went up by 27%. The operating EBITDA again has shown Rs.200 crores more than the standalone numbers; it was Rs.2611 crores – a 39% growth over corresponding quarter of last year. There was improvement in US plate mill, there was a US\$ 4 million positive EBITDA, Chile operations reported a marginal negative EBITDA of \$0.35 million due to lower Iron Ore prices in the last quarter even though we sold over 3,25,000 tonnes of Iron Ore.. JSW Steel Coated Products did well; it reported Rs.95 crores EBITDA. Similarly, Amba River Coke has contributed Rs.12.8 crores EBITDA. So with all these together, the consolidated EBITDA was more by Rs.200 crores over standalone number.. The profit after tax was Rs.656 crores on a consolidated basis.

The exports in the last quarter were at 768,000 tonnes –, approx. 27% of our total volume. Again, it is very important that we remained the Largest Exporter of Steel from India. India exported ~1.4 million tonnes in the last quarter, out of which we exported 768,000 tonnes. So, 55% of the total exports from India were from JSW Steel.

We have incurred a capital expenditure of Rs.1,737 crores in 1QFY15 against the guidance of Rs.7,500 crores for this year. We have commercially commissioned CRM-2 phase-I and also the Coke Oven Plant at ARCL. These put together resulted in capitalization of Rs.3000 crores during the quarter, corresponding additional interest and also additional depreciation was charged to profit & loss account.

The overall net debt of the company was Rs.35,870 crores, the debt-equity ratio was 1.59x, and net debt-to-EBITDA was 3.62x. As you all know, the net debt-to-EBITDA was 3.71x as on 31st March, but with the improvement in the overall operating margins and EBITDA it came down to 3.62x.

Going forward, we expect further upside coming from Dolvi where we will be able to substitute the entire pellet requirement and coke requirement from captive source, and also we will be able to improve our value-added products further (as guided in the beginning of the year) to 33% of our total sales volume. So these two upsides are still to come in, in the quarters to follow. Because of the scarcity of Iron Ore, we are now relying upon imports. We are importing high grade iron ore with very low alumina, so that will again give some benefit of higher productivity. Even though imported iron ore

cost is higher, to a large extent it can get neutralized by way of fuel efficiency and productivity benefits. So we are working-on very seriously to improve our productivity. We will continue to import around half a million ton per month. With these remarks, I open the forum for questions-and-answers.

Moderator: Thank you very much Sir. We will now begin the question-and-answer session. We have the first question from the line of Giriraj Daga from Nirmal Bang Equities. Please go ahead.

Giriraj Daga: My question is related to what kind of Iron Ore situation in Karnataka in terms of like mine opening, so where we are right now in terms of number of mines opened and how much production capacity is on stream?

Seshagiri Rao MVS: There is not a significant improvement in Iron Ore situation in Karnataka; production remains around 18-19 million tonnes. Out of that 9 million tonnes is from NMDC and the balance from private mines. However, there are certain proposals pending with the Supreme Court for permissions to increase the capacity. So we expect that there is a possibility that 7 million tonnes extra could come-in if the Supreme Court approves those proposals. We are expecting that to happen.

Giriraj Daga: Sir, what is the absolute Coking Coke Cost during this quarter, like how much benefit can we spill over to Q2 because of coking coal cost?

Jayant Acharya: The coking coal prices have softened. So we expect, going into the 2Q ie July-September, quarter there will be a further drop in coking coal prices by about \$15/ton.

Giriraj Daga: So \$15 you have already captured in Q1 and more \$15 to come in 2Q?

Seshagiri Rao MVS: Yes.

Giriraj Daga: Is there any one-off in subsidiary because subsidiary performance has improved, but if I see the delta, it only comes from the pipe mill, from (-4) to (+4), so that is around \$8 million, which is Rs.50 crores, but the numbers improved substantially, because rest of the other parameters have not improved?

Seshagiri Rao MVS: No, the improvement has come from ARCL, it has contributed Rs.12 crores, and our processing centers have also contributed some amount. Similarly, JSW Severfield, which was the negative, also had positive contribution. All these together have added to the EBITA and bottom line.

Moderator: Thank you. The next question is from the line of Naveen Gupta from Goldman Sachs, please go ahead.

Naveen Gupta: Just two questions from my side. You mentioned the CAPEX in the quarter was about Rs.1,700 crores. Now, if I look at the debt, the net debt has increased by about Rs.1,900 crores in the quarter from Rs.34,000 crores to about Rs.35,900, and if I look at the cash flow, if I look at consolidated EBITDA minus tax and interest, that is about Rs.1,400 crores. So is Rs.1600 crores the working capital increase? Because you have got a sequential decline in net sales, so what is the working capital increase on account for?

- Seshagiri Rao MVS: You are correct; there is an increase in both coal inventory and also finished goods inventory – both together approximately Rs.450 crores to Rs.500 crores. In addition to that we also reduced, in the last quarter because of the bunching, the acceptance level from \$1,070 million as on 31st of March 2014 to \$855 million as on 30th June 2014. So there is an outflow. All this together resulted in an additional outlay, in the working capital including reduction in the acceptances, to the extent of close to Rs.1,900 crores.
- Naveen Gupta: But this net debt number is net of acceptances, right?
- Seshagiri Rao MVS: You are correct.
- Naveen Gupta: Second question is on the Iron Ore sourcing. You mentioned about in this quarter you would have bought about half a million tonnes monthly, is that correct.
- Seshagiri Rao MVS: No, actual usage of imported iron ore has started from July end. We started placing orders in the month of June. So nothing was used in the last quarter as far as the imported Iron Ore is concerned.
- Naveen Gupta: Can you share the mix of how much Iron Ore was procured from e-auction in Karnataka, and how much of it was sourced locally from Odisha as a percentage? And if can you share the cost as well on an average?
- Seshagiri Rao MVS: The Iron Ore which we are procuring from outside Karnataka on an average is working out to 2,00,000 tonnes to 2,50,000 tonnes per month. So that is what we have been doing. So as there are restrictions in Odisha, we are now moving to the imports.
- Naveen Gupta: So it is fair to assume that all this Odisha sourcing would move to imports?
- Seshagiri Rao MVS: Yes.
- Naveen Gupta: And what was the average cost in the quarter for Odisha sourcing for this?
- Seshagiri Rao MVS: As we have been talking, Iron Ore cost in absolute number may not be the right number, but anyhow I will give it you. It was Rs. 3670 per tonne - average cost for Vijayanagar.
- Moderator: Thank you. We have the next question from the line of Jigar Mistry from HSBC, please go ahead.
- Jigar Mistry: Three actually from my side; Firstly, if I look at Slide 9, you show that in domestic shipments for the company has come down, now is it because the international markets were that much more lucrative or offtake in India is incrementally that much more difficult? Secondly, on depreciation you mentioned year-over-year increase, but on a sequential basis it is down. So with a higher capitalization and change in the Companies Act norms, we were actually expecting a higher depreciation. And lastly, has that royalty payment already been accounted for in this quarter?
- Seshagiri Rao MVS: I will answer question #2 and #3 and Jayant will answer the question #1. As far as depreciation is concerned, we have also given a note (Note #4) in the results release. As per the change in the Companies Act the average life of the assets has increased,

accordingly we have charged the depreciation for the current quarter. The impact was around Rs.50 crores. Therefore the depreciation and amortization was Rs.663 crores in the standalone company as against Rs.706 crores for the quarter-ended 31st March 2014. Therefore, even after considering incremental depreciation due to the capitalization, the absolute depreciation number appears to be lower. The next is royalty, yes; we have made the provision in this quarter.

- Jayant Acharya: On your question on domestic shipments. We have actually rebuilt some inventories. In the last quarter, we had reduced stocks over production by almost 75,000 tonnes as far as JSW Steel standalone was concerned and some quantity from JSW Steel Coated as well. We had to rebuild some of this inventory for better order servicing. Secondly, with the start of CAL and CGL at Vijayanagar, we had to build up some WIP and raw material for these lines. So, some inventory has been built on that account.
- Jigar Mistry: But to answer this, is international market serving better on realization than the domestic one?
- Jayant Acharya: I would say that domestic realizations for hot rolled products today may be about \$10 per tonne higher than exports on average blended basis, not much of a difference.
- Moderator: Thank you. We have the next question from the line of Prasad Baji from Edelweiss Securities, please go ahead.
- Prasad Baji: Just continuing on the net debt, what would be the net debt towards the end of FY15 you believe? And would this sort of reduction in acceptances continue? Are we looking at sort of much lower numbers? So overall how would we see by the end of FY15 the net debt and acceptances mix?
- Seshagiri Rao MVS: Acceptances, as I mentioned it is bunching, due to which this quarter it has come down to \$855 million, but we expect it to go back to US\$ billion plus. As far as the overall net debt is concerned, our intention is to bring down the net debt-to-EBITDA below 3.5x, this is what we have been guiding instead of guiding about the absolute number of net debt. We were at level of 3.62x as on 30th June 2014 which was lower than 3.71 as on 31st March 2014. We are working towards to bring it down below 3.5x.
- Prasad Baji: So should we see that towards the end of FY15, or is there a fluid timeline, what kind of timeline are you seeing for that?
- Seshagiri Rao MVS: Yeah, we are targeting to bring it down in this financial year below 3.5x.
- Prasad Baji: On the international subsidiaries, this is a broader question, is there any turnaround inside, the EBITDA has improved this quarter, but is this a new trend, can we see a much higher EBITDA, is there any visibility of a PAT level turnaround or that is not yet visible?
- Seshagiri Rao MVS: In this year, we are targeting to make cash profit in our plate and pipe mill in the US. We are reasonably confident that we will be able to do it. Last quarter EBITDA was \$4 million, I think we will improve that. The capacity utilization was 42% in the plate mill and we expect it to pick-up.
- Prasad Baji: From the new CRM-II with the CGL line and CAL-1 which we have now commissioned,

what kind of volumes can we see and product mix we can see for this fiscal, and is there anything for next fiscal if at all you can target?

Jayant Acharya: The CAL-1 capacity is about 950,000 tonnes, we have started this line in April end, and we would be ramping up this line slowly. Currently, the line has reached utilization of roughly about 50% to 60%, and this is ramping up fast. I think in the second half we would be close to 80% utilization. As far as the CGL is concerned, we are already close to 80% utilization, and in the second half this would ramp up to its full capacity. As far as CAL-2 is concerned, that is expected in the next year, so that would be taken up at that time.

Moderator: Thank you. The next question is from the line of Pinakin Parekh from JP Morgan please go ahead.

Pinakin Parekh Sir, if I look from here over the next two to three quarters, we will see ramp up of the CRM mill and the benefits of Dolvi Coke Oven and Pellet plant come through, but at the same time we will see higher iron ore cost as import increases. So I am just trying to understand from a margin picture, is the benefit from the projects enough to offset the iron ore cost pressures or can we see margins contract from here, because we are probably entering a seasonally weak period in terms of steel prices?

Seshagiri Rao MVS: We are not only looking to preserve the margins which are improving with backward integration and increased proportion of value added products, we are also looking to neutralize the impact of high iron ore cost due to imports or purchases from Odisha. We are trying to work out in a manner that the usage of better quality iron ore should result in higher productivity and lower fuel cost and should neutralize the impact of high iron ore costs to a large extent. Therefore, assuming the steel prices remain at the current level and further benefits from backward integration and value-added products, I think margins should improve.

Pinakin Parekh My second question is just on Steel prices, Mr. Acharya. On the ground, local domestic flat product prices, I mean long products we can understand it is a seasonally weak period, but in HRC and flat products for July-August how has been the pricing trend been compared to the June quarter and how do you see near term outlook because demand has not really improved at the end of the day, and we are still seeing imports come from Japan and Korea?

Jayant Acharya: So in the quarter April-June, the prices of Hot Rolled Coil did soften a bit on the back of softening raw material prices, internationally a dip in the vicinity of \$20 to \$25/ton odd. We took some corrections in the month of April-May, and after that the prices in June and July have been by and large stable as far as HRC is concerned.

Pinakin Parekh: And similarly for August?

Jayant Acharya: Similarly, we do not expect any change in the month of August. There is a pressure as you said in terms of imports, Q1 imports of Hot Rolled Coil and Plate put together has been almost 600,000 tonnes plus, so we are keeping a close watch on that. Meanwhile what has happened is that a little bit of HRC has gone out of the market, and therefore the balance supply has been absorbed.

Pinakin Parekh At the same time the Coking Coal cost for the steel companies would keep on coming

down given the way the contracts have been signed?

Jayant Acharya: We expect another \$15/ton reduction in the Coking Coal prices in July-September vis-à-vis what we had in April-June.

Moderator: Thank you. The next question is from the line of Ritesh Shah from Espirito Santo, please go ahead.

Ritesh Shah: Sir, first one is for Mr. Acharya. Sir, you detailed about CAL-1 and CAL-2 and CGL. If you could please quantify what is the delta that we expect on realization at EBITDA level once these mills operate at 100% utilization?

Jayant Acharya: Basically, on the ramp up on the CAL line, the entire product mix change will come when the auto lines are fully ramped up. So therefore the auto approvals will take some time - and usually takes anywhere between 6 to 12 months for various auto approvals to come in, but just as a guidance in terms of a number, I think anywhere between \$30 to \$40 / ton is something which we would expect a delta in EBITDA over Hot Rolled.

Ritesh Shah: So this would be on 1.3 million ton capacity?

Jayant Acharya: No, I am talking about the CRC number and the delta on the galvanizing number.

Ritesh Shah: So it is a 2.3 million ton mill which is 1.3 plus 1, right, so please correct me if I am wrong?

Jayant Acharya: Yes, we are going to be using this mill currently for making mostly the continuous annealing product, the galvanizing product and some CR full hard. So the utilization in this particular year may be in the vicinity of 1.3 to 1.5 million tonnes.

Ritesh Shah: Second question is for Mr. Rao. Sir, if you could please highlight specific, if you have any comments on the Bengal expansion? And secondly what exactly are we looking at when we look at our growth prospects because there was something around Lucchini Steel Plant in Italy that we would be probably bidding for.

Seshagiri Rao MVS: As far as Bengal project is concerned, we have been clarifying from time-to-time that we have committed to that project, but at the same time we want to ensure that we do not suffer the way we are suffering today in Karnataka for lack of Iron Ore. Earlier we were predicating on the lines that there is a surplus iron ore which is getting exported from India, so we would be able to get it for our Bengal project. So we went ahead. But with the developments that have happened in the recent past where each state has put several restrictions on the movement of Iron Ore, we have requested the West Bengal Government to make the Iron Ore available on a long term and sustainable basis to enable us to take a call on the Bengal project. So we will continue to look for Iron Ore linkages before we commit further expenditure on the Bengal project. With regards to any other acquisitions, I have been clarifying that our strategy (right from inception) is to focus on backward integration and forward integration. We continue to scan those opportunities. We continue to stick to the principle. There are several opportunities under consideration right now, but unless something is very attractive, gives returns to the stakeholders, makes sense for us and fits within our strategy, we will not go ahead and do it. So once anything matures to a level where we

need to inform our stakeholders we will inform, but as on date there is nothing to comment on any specific proposal.

Ritesh Shah: But on these facilities the intention is to operate it out of Europe or overseas, or to relocate it back to India and operate it over here?

Seshagiri Rao MVS: No. The way we have been explaining is that we want to expand our basic steelmaking capacity in India, and we have a vision of 40 million tonnes by 2025, so we should look at markets, markets in either Europe or US or anywhere in the world. Therefore it is in the interest of the company to look at very attractive opportunities to be able to send the semi-finished or basic steel products from India, convert them in to finished products in those markets, and sell in those markets. So those opportunities we continue to look at, looking at our vision 2025.

Ritesh Shah: If you could update on Captive Iron Ore and Captive Coking Coal Block Ankua and Rohne?

Seshagiri Rao MVS: As far as captive Coking Coal is concerned, last time we said within 18 months we will be able to operationalize, we are working towards that. We are working on to get Stage-II Forest clearance, we are on track. The same applies to Rohne.

Moderator: The next question is from the line of Dhawal Doshi from PhillipCapital, please go ahead.

Dhawal Doshi: Sir, just wanted some color in terms of the Category-C mines auctions. I believe the Supreme Court was to finalize the policy by this month, the state government has already submitted their policy. So have there been some discussions which have happened and how do you see the road ahead for this?

Seshagiri Rao MVS: No, the state government is still formulating the policy. , They want clarifications from the Supreme Court on the issue whether "quantification of the resources, and also the amount of illegally mined ore, and the profit made out of that" is a prerequisite for auctioning or can it be done simultaneously? So I think in the next few hearings, it will get clarified and they will prepare a scheme to be approved by the Supreme Court, and then we can expect auction to happen.

Dhawal Doshi: So was there timeframe according to you Sir?

Seshagiri Rao MVS: Earlier they said six months, that six months is now expiring, I think the state government is asking some more time.

Dhawal Doshi: There was some confusion with regards to the end user as well. So has that been sorted out? Is it going to be fresh value addition or existing plants also gets qualified for that?

Seshagiri Rao MVS: No, we have been representing to the state government that Supreme Court has already clarified on this issue through CEC recommendations which was referred in the various orders of the Supreme Court, where the CEC said the e-auction has to be done to the end user. So basically, they defined in some other places that the Iron Ore to be auctioned only to the end users, end users means who have been buying iron ore within Karnataka in the last 12 months. If you link all together in our view, which

we have been representing to the state government, end user would be the companies which have been buying Iron Ore within the state of Karnataka.

Dhawal Doshi: So there is no specific condition in terms of the fresh plants that we will have to set up?

Seshagiri Rao MVS: I do not think so, this is our understanding.

Moderator: Thank you. We have the next question from the line of Pallav Agarwal from Antique Stock Broking, please go ahead.

Pallav Agarwal: Just a question on our guidance. Of about 12.4 million tonnes of sales for the full year, the first quarter I think the volumes are slightly probably below expectations of about 2.88 million tonnes, and Q2 also could be a seasonally weak quarter. So are we expecting that we would make up the shortfall in the next half and or we would probably see a revision in the guidance downwards at some stage later on?

Seshagiri Rao MVS: That is why in the beginning I mentioned that we have given a guidance of 5% growth in production and 6% growth in sales volumes for FY15. As against the 6% over the year, we have already achieved 13% growth compared to the corresponding quarter of the previous year. In that sense we have already exceeded whatever we are guiding. We are very confident that we will be able to meet our sales guidance of 12.4 million tonnes in the current year.

Pallav Agarwal: Sir, just also on our sourcing of Hot Rolled Coils for the Coated Products division, so like with CRM coming up in Vijayanagar, earlier were we transferring any coils from Vijayanagar to our Coated Products division, would that stop now and we would source from some other alternative source?

Seshagiri Rao MVS: No, we continue to do that, because we have total HR Coil capacity of 8.5 million tonnes, we have enough capacity of HR. This is also one strategy which none of the other producers have but JSW has. In fact,, we will be selling lesser HR Coils in the domestic market in this year than the last year as our capacities in the downstream has gone up.

Jayant Acharya: In addition to supplying some HR coils come from Vijayanagar, we are supplying HR Coils from our Dolvi units to our coated division in Vasind, Tarapur and Kalmeshwar, so that balancing is there.

Moderator: Thank you. The next question is from the line of Bhaskar Basu from Merrill Lynch, please go ahead.

Bhaskar Basu: Firstly, just wanted to clarify this 0.5 million tonnes of imports of Iron Ore pertains to just the Vijayanagar unit or for the group as a whole?

Seshagiri Rao MVS: It is for the group as a whole; 0.5 to 0.6 million tonnes per month.

Bhaskar Basu: What is the mix in terms of Dolvi Iron Ore sourcing because I understand a part of it was sourced from NMDC and part used to be from Odisha, so how is that?

Seshagiri Rao MVS: How much we use in which location depends upon value in use every time, what is the

international price, and what is the landed cost at Dolvi and what is the landed cost at Vijayanagar, whether we import it or get from Odisha. So as on date it appears to be beneficial for us to import Iron Ore for Vijayanagar unit. We are doing the entire imports for Vijayanagar right now.

Bhaskar Basu: But what would be the source for Dolvi in that case because it was primarily dependent on NMDC and Odisha earlier?

Seshagiri Rao MVS: Yes, Dolvi will get from Odisha and Bachel.

Bhaskar Basu: But Odisha right now, because of the mining ban, would that not be impacted?

Seshagiri Rao MVS: Not fully, that is why I am saying earlier part of the quantity from Odisha and Bachel used to go to Dolvi, part of it used to go to Vijayanagar which is now going to Dolvi and imports are coming to Vijayanagar.

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

Ashish Kejriwal: Sir, there is one line item in other operating income which we report regularly...this is from Ispat, gain on repayment of deferred sales tax. So first of all what is the amount in this quarter and how long it will be there?

Seshagiri Rao MVS: I do not think there is a big change as far as that number is concerned, it is in line with earlier quarter, and this will continue up to 2019 for the existing 3 million. But we are expanding Dolvi capacity from 3 million to 5 million tpa, so the VAT benefit will be available for another 10 years from the date of commissioning.

Ashish Kejriwal: So on a quarterly phenomenon run rate remains more or less the same, last year we did around Rs.400 or something crores?

Seshagiri Rao MVS: Yes, it will remain the same.

Ashish Kejriwal: Secondly Sir, in top line just to look at from the calculation basis for blended realization, how much is non-steel sales included in top line standalone, which means traded goods and others besides steel sales?

Seshagiri Rao MVS: It was Rs.460 crores.

Ashish Kejriwal: And what was the amount for the fourth quarter?

Seshagiri Rao MVS: Rs.450 crores in Q4 and Rs.460 crores in Q1.

Ashish Kejriwal: Essentially we have not seen any increase in steel blended realization from the fourth quarter to first quarter level despite increasing value addition, is it right?

Seshagiri Rao MVS: We reduced steel prices in the month of April and May, in fact the realization could have been lower in this quarter if value added products are not there. So value-added products not only neutralized the reduction which has happened in certain segments of steel products in April and May, but also kept it almost at the same level in this quarter.

- Ashish Kejriwal: And lastly, if I heard correctly, you mentioned that Amba River, they have contributed Rs.12 crores to EBITDA in this quarter?
- Seshagiri Rao MVS: Yes.
- Ashish Kejriwal: Because we are reaching 47% of requirement from captive and 76% for Dolvi, even then we are contributing Rs.12 crores only for Amba, so what could be the potential or what could be the cost of manufacturing pellet and coke over here so that we can have a sense of what kind of EBITDA contribution can come from this subsidiary?
- Seshagiri Rao MVS: Pellet is not yet commercialized, what is commercialized is only Coke and that too from 1st of June, it is only one month.
- Ashish Kejriwal: So when we are talking about 76% of Pellet requirement from captive, this is you are talking about overall in the year?
- Seshagiri Rao MVS: These are not overall, in this quarter only, balance is trial production, so it is transferred at cost, because it is in trial production for Pellet and similarly for Coke.
- Ashish Kejriwal: So this Rs.12 crores is entirely due to Coke only.
- Seshagiri Rao MVS: Coke for one month, we have commercialized it from 1st June. So when I gave the number of 47% and 76%, these two numbers based on entire Coke and Pellet produced during trial plus commercialization.
- Ashish Kejriwal: So the benefits of these are yet to come in the coming quarters?
- Seshagiri Rao MVS: Yes.
- Ashish Kejriwal: What could be our cost of production for these two items currently we have stabilized more or less now?
- Seshagiri Rao MVS: We will not be able to give specifically for these two items.
- Moderator: Thank you. The next question is from the line of Bhavin Chheda from Enam Holdings, please go ahead.
- Bhavin Chheda: When you meant Coking Coal cost reduction of \$15, it was quarter-on-quarter, right?
- Seshagiri Rao MVS: Yes, quarter-on-quarter.
- Bhavin Chheda: Another \$15 would be captured in Q2 FY15.
- Seshagiri Rao MVS: Yes.
- Bhavin Chheda: Sir, on the backward integration projects – Coke and Pellets, does this number capture only one month of savings since balance were in trial and hence the numbers would have gone in balance sheet?
- Seshagiri Rao MVS: No, both trial production numbers at cost, plus one month coke at the agreed return of 25% on the equity to ARCL at Rs.12 crores profit in ARCL (our EBITDA at ARCL).

- Bhavin Chheda: Was met from captive?
- Seshagiri Rao MVS: Yes, that has already been used. Still 53% is yet to come, that ramp up is happening now.
- Bhavin Chheda: That portion of Coke you are procuring from open market right now?
- Seshagiri Rao MVS: Yes, same is the story in the case of Pellets.
- Bhavin Chheda: The cost benefit up to this extent would have been captured in consolidated results, right?
- Seshagiri Rao MVS: Yes, but once ramp up happens cost of production comes down, so that benefit will come on the existing whatever is being consumed plus ramp up benefit, both will come in the coming quarters.
- Bhavin Chheda: Sir, has the higher Pellet and Captive Coke led to productivity improvement? We are not sharing separate volumes, but I am assuming there is a volume improvement also at Ispat Dolvi Unit.
- Seshagiri Rao MVS: No, I do not think so, we have not guided volume improvement, we guided about reduction in the cost, so cost reduction is happening, so that will ...
- Bhavin Chheda: Because the original Dolvi Unit never used to operate at its 3.2, 3.3 million run rate, so I am assuming captive and backward integration will lead higher capacity utilization at Dolvi unit, is that assumption be fair?
- Seshagiri Rao MVS: No, if everything goes well and there is natural gas available, then it can go up to full capacity otherwise we are guiding this unit to produce around 3 million tonnes.
- Bhavin Chheda: Till in Q1 or so there is no major volume growth which is captured in Dolvi?
- Seshagiri Rao MVS: No.
- Bhavin Chheda: Sir, you spoke about Rs.3,000 crores capitalization in Q1. I missed out; you said Pellet plant and something else right?
- Seshagiri Rao MVS: No, Rs.1,000 crores for Coke plant has been capitalized from 1st June 2014 in Amba River and we have capitalized Rs.2,000 crores of CRM-2 Phase-I at Vijayanagar. ,So, on a consolidated basis Rs.3,000 crores (Rs.2,000 crores at Vijayanagar, Rs.1,000 crores in Amba River) has been capitalized.
- Bhavin Chheda: Your March 2014 balance sheet had a CWIP of Rs.9,400 crores. So should I assume this entire amount will be capitalized this year?
- Seshagiri Rao MVS: Part of it, yes.
- Moderator: Thank you. The next question is from the line of Abhishek Poddar from Kotak Securities, please go ahead.
- Abhishek Poddar: Sir, my questions are more on the raw material side. First, could you give us some

colour on the procurement pattern for Dolvi, like what percentage has been procured from NMDC, and how much is being procured from Odisha?

Seshagiri Rao MVS: No, it goes on changing, it is very dynamic, and it is very difficult to say this much from NMDC, this much from Odisha, because we always look at value in use. If it is making sense to buy more from NMDC, we buy from NMDC, otherwise from Odisha, and it also depends on availability. So based on these factors, we always optimize our sourcing.

Abhishek Poddar: With the Pellet plants, our Lump intake would have gone quite low. So at what percentage of Lump you are still procuring from these two locations?

Seshagiri Rao MVS: Lump, we are buying only to use in the DRI. As far as Pellet is concerned, I do not think we need any Lumps there, we are buying only Fines.

Abhishek Poddar: For the Dolvi location, how much will be the total percentage of procurement in terms of Fines and for Lumps?

Jayanth Acharya: Our Lump procurement now is reducing substantially, because our Pellet production is ramping up. The need for lumps will not be there much beyond a month or so.

Abhishek Poddar: Could you share the average blended cost for Dolvi and Vijayanagar separately, and if it is not possible, for the combined?

Seshagiri Rao MVS: We have already shared with you the Iron Ore cost at Vijayanagar, balance is a very dynamic number, it goes on changing on a daily basis in fact.

Moderator: Thank you. The next question is from the line of Nitesh Jain from Axis Capital, please go ahead.

Nitesh Jain: We noticed that JSW Steel is importing a lot of Iron Ore from South Africa through Krishnapatnam Port. So I just wanted to know, why we are importing through Krishnapatnam, Andhra Pradesh rather than Mangalore or Goa Port which are like nearer to the Vijayanagar facility? I believe that Salem work must be using from the Krishnapatnam, but that is a much smaller capacity compared to Vijayanagar.

Seshagiri Rao MVS: No, if we see freight from Krishnapatnam to Vijayanagar, it is cheaper than Mangalore to Vijayanagar and we are bringing iron ore in the cape vessel, not in the Panamax; cape vessel freight is lower, Krishnapatnam only can handle that, not the Mangalore.

Nitesh Jain: In terms of the inland freight transportation, you are saying from Krishnapatnam to Vijayanagar is cheaper than Mangalore to Vijayanagar, is it?

Seshagiri Rao MVS: Yes.

Moderator: We have the next question from the line of Harshad Gujrati from Athena Investments, please go ahead.

Harshad Gujrati: Just a follow up question on the US Plate Mills. While referring to this quarter sales and EBITDA, there is a drop in the blended realization on sequential basis, but I can see that there is an increase in the EBITDA per tonne on sequential basis. So what has

driven that increase in the EBITDA for the quarter? Because referring to the utilization of a pipe mill which has decreased from 11% to 6%, same with respect to plate mill also from 44% to 42%.

Seshagiri Rao MVS: Yes, utilization in the current quarter was 42% in the case of Plate Mill. Pipe Mill has more or less remained at 6%. So the improvement in the EBITDA is majorly in the case of plate, where we increased our capacity to produce high-end plates, and also the orders from rail cars have come in, that is giving us good margins relative to the corresponding quarter of last year.

Harshad Gujrati: So that is the only thing that has driven the EBITDA at positive terms?

Seshagiri Rao MVS: Yes.

Harshad Gujrati: Is this expected going ahead especially for Q2, Q3 and for the whole year?

Seshagiri Rao MVS: Yes, our target is to focus more on the plates in the next one or two quarters and improve the capacity utilization further, that is why I am talking about the cash profits in this year.

Moderator: Thank you. The next question is from the line of Swagato Ghosh from Jefferies, please go ahead.

Swagato Ghosh: Quickly, I had a couple of questions, Sir, could you please tell me how much was exported from the coated products division?

Seshagiri Rao MVS: 214,000 tonnes.

Swagato Ghosh: Sir, in your standalone financial statement there is a line item of purchase of traded goods. What is the nature of this and going forward how it will be?

Seshagiri Rao MVS: Majorly this is power, because when Ratnagiri JSW Energy supplies power, that power cannot be fully used by Dolvi, then Dolvi will be selling the surplus power, because when you enter into an agreement for taking let us say 450 MW of power, it goes on fluctuating. So as and when surplus power is there, they will sell it the grid.

Moderator: Thank you. The next question is from the line of Jigar Mistry from HSBC, please go ahead.

Jigar Mistry: Sir, is the CAPEX guidance still at Rs.10,750 crores for the next three years?

Seshagiri Rao MVS: Rs.10,750 crores was guided last year, this year we have given guidance of total Rs.12,000 crores over FY15 & FY16, out of that Rs.7,500 crores for this year.

Jigar Mistry: The total is Rs.12,000 crores.

Seshagiri Rao MVS: Yes.

Jigar Mistry: Do we expect the tax rate to come down to MAT levels now?

Seshagiri Rao MVS: I do not think so, because there is a deferred tax liability provision, so it will remain



more or less at the same level.

Jigar Mistry: At around 32%.

Seshagiri Rao MVS: Yes.

Moderator: Thank you. As there are no further questions, I now hand the floor back to the management for closing comments. Over to you, sir.

Seshagiri Rao MVS: As I mentioned to you that going forward there are upsides available in this company with backward integration and also improvement in the value-added products, plus imported Iron Ore driven increase in productivity plus fuel efficiency. With all these, we expect the margins to be preserved or to be improved from here on. That is #1. Number #2 is when we are talking to our customers, the kind of feedback we are receiving particularly from the auto segment and also infrastructure construction segment, that they are looking at very optimistically and positively for the second half of this financial year, so we expect the demand to pick up going forward in the second half of this year; first quarter it was only 0.7% growth in demand, so the volumes should be better in the quarters to come. Thank you very much.

Moderator: Thank you. On behalf of Kotak Institutional Equities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.