"JSW Steel Limited – 1QFY16 Earnings Conference Call"

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

Call host: **Mr. Rakesh Arora, Senior Analyst, India Strategy and Basic Materials, Macquarie Capital Securities**

Moderator: Ladies and gentlemen good day and welcome to the JSW Steel Q1FY16 Earning Conference Call hosted by Macquarie Capital Securities 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 call please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Rakesh Arora from Macquarie Capital Securities. Thank you and over to you sir.

Rakesh Arora: Good afternoon everyone, thank you for joining into this call. We are honored to host the top management of JSW Steel. I will pass it on to Pritesh to do the honors and introduce the people out there.

Pritesh Vinay: Thank you Rakesh. A very good evening to all the participants who have dialed in to discuss the 1QFY2015-16 results of JSW Steel. We have with us today the senior management team of JSW Steel represented by Mr. Seshagiri Rao - Jt. Managing Director & Group CFO; Dr. Vinod Nowal – Dy. Managing Director, Mr. Jayant Acharya – Director - Commercial & Marketing and Mr. Rajeev Pai – CFO. So we will keep the format simple as in the past. We will start with a few minutes of opening remarks by Mr. Rao and then we will jump straight to the Q&A in order to make it more efficient for all the participants. So without much ado, over to Mr. Rao.

Seshagiri Rao: Good evening all of you. The steel industry is facing a very challenging situation because of the structural over supply of steel in the international markets, in spite of a reduction of 2% in the supply side from 827 million tonnes to 811-812 million tonnes for the first 6 months of this calendar year. The exporting countries like Japan, Korea, China and Russia, these four countries together have exported 103 million tonnes in the first 6 months of this year compared to 89 million tonnes in the corresponding period of last year. So the exports are happening in a big way from these countries, even when their domestic markets are not able to absorb their full production - and that is why the exports are happening. The exports are happening at price levels which are lower than their domestic prices in their home country markets, making it a clear case of dumping.. This is an acute cause of worry, particularly from the Indian point of view.

You must have seen the numbers of JPC. In India, the finished steel imports have grown by 55%YoY and the exports have fallen by 32% and the apparent consumption grew by 6.9% in 1QFY16. But what is very important here to see is that in absolute terms consumption has grown by 1.3 million tonnes during the quarter.

This 1.3 million tonnes is more or less absorbed by incremental imports of close to 900,000 tonnes and also fall in exports of half a million tonnes. But the pain to the domestic industry is that the entire incremental production of 0.6%-0.7% in terms of crude steel and 2.9% in terms of the finished steel wise has resulted into addition to the inventory and also the fall in prices. Alongwith the dumping of steel, this has caused a huge pressure on the NSR and the margins. So this is the context, in which JSW Steel has delivered these result for the quarter.

The company has reported the highest ever crude steel production of 3.4 million tonnes which is a 10% growth compared to the corresponding quarter of last year. Everybody is worried about the domestic demand and ability to push through volumes. JSW Steel has shown a growth not only on sequentially basis but also on YoY basis, there is a 8%YoY growth in the saleable steel sales volume of 3.11 million tonnes. This volume is not an easy achievement. If you look at our exports, exports have shrunk by 41% which is just 14% of the total sales volume and domestic sales have grown by 27%. So the challenge for JSW Steel was, when the international markets were not doing well and when there is surplus capacity, how to increase the sales in the domestic market. So, we have been quite successful in this quarter on this measure, with a 27% growth in domestic sales volume during the quarter.

Retail sales have grown by 77%, our sales in the South and also North has grown close to 40% and also value added steel sales mix has improved in this quarter to 35% as compared to 29% in the corresponding quarter. So in all and all we could show a good volume growth in terms of production and also in terms of sales and we are in line with our guidance which we have given. In spite of good volume growth in this challenging environment, the net sales revenue fell by 12%. This is majorly due to a fall in the NSR. This led to lower operating EBITDA which is Rs1504.71 crores, which is just 14.9% in terms of margins. This translates in to Rs.4,845 per tonne of steel or say $76/t of EBITDA margins. Sequentially if you compare, there is a fall of Rs.600 per tonne. NSR has fallen by close to Rs.2500 per tonne and the cost of production benefit has come lesser by Rs.600 per tonne, so that impact has come on the operating EBITDA margin per tonne. Here only two clarifications which I would like to provide. There was an opening inventory of iron ore (imported as well as domestic) which was bought at a higher cost, after that the prices have corrected in the domestic market. So the opening inventory absorption has to be done in this quarter. In the absence of the absorption of this higher cost of the inventory, our EBITDA margins could have been higher by at least 2.5% in this quarter. If I look below the operating EBITDA, depreciation has gone up by Rs.48 crores. It is majorly attributable to declaration of commercial production at CRM-2 and other facilities. Interest cost change is very relevant here. We are able to bring down our weighted average interest cost on debt to 7.19%. The interest in absolute number is Rs.653 crores which is lower than the corresponding number of the last year as well as sequentially. The exceptional item reflects provision for our USA Plate and Pipe Mill losses. The net profit after tax is Rs30.75 crores at the standalone level.

In consolidated results, if you look at Indian subsidiaries, the Amba River Coke is working close to design capacity. There the EBITDA was Rs.98.7 crores which is a significant improvement when you compare it with corresponding quarter where it was only Rs.13.5 crores; similarly sequentially there is an improvement in the ARCL EBITDA and also the profit. The EBITDA margin improved in JSW Steel Coated Products which focuses on the value added GL, Galvalume, and the PPGL. JSW Steel

Coated improved its EBITDA to Rs.111 crores EBITDA and reported a net profit. At Salav unit, we were able to reduce our loss relative to the last quarter. So, Indian operations including the subsidiaries have done quite well. Only the overseas side, it remains more or less the same thing, there is not much improvement. At Chile, the EBITDA was $0.68 million from whatever inventories we could sell in this quarter and the mine is under care and maintenance right now. Coal prices have not improved. So US coal mine is also not operating. So there we had a negative EBITDA of $0.15 million. At USA Plate and Pipe Mill, Pipe mill has done reasonably well relative to the corresponding quarter in terms of capacity utilization. It improved close to 10%. On the Plate side, the distribution market has really crashed in the US. We sell 52% of our volume in the distribution market to the service centers. There was an issue in the US where prices have crashed and the demand came down. So that is why the capacity utilization of the Plate Mill has come down to 23%. The operating EBITDA at the US Plate and Pipe Mill was negative $9.48 million because of the inventory loss, lower capacity utilization and the lower demand from service centers and distribution markets. This dragged down our consolidated EBITDA, but in spite of this we could show Rs.1,627 crores consolidated operating EBITDA compared to Rs.1,505 crores operating EBITDA in the standalone company. The consolidated net profit was negative at Rs.106.81 crores as the interest and depreciation from the overseas couldn't be fully absorbed.

The gross debt was Rs.39,916 crores. We have cash balances of 1,963 crores. So, the net debt was 37,953 crores. Net Debt to Equity on consolidated basis is 1.66x. Net Debt to EBITDA was 4.51x. Inventories were slightly up in this quarter, to the extent of 1,64,000 tonnes relative to 31st March 2015 as we are planning to take shutdowns during the next 6 months on all three locations Vijayanagar, Salem and Dolvi. We are building billet and slab inventory, this has also caused a certain increases in our inventories. The revenue acceptances were at$1262 million and our CAPEX acceptances were at $444 million. With that, I request you to ask any questions on the results.

Moderator: Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Naveen Gupta from Goldman Sachs. Please go ahead.

Naveen Gupta: I have a question on the net debt to EBITDA ratio of 4.5, can you help us explain how this has been calculated because if I look at the net debt of 38,000 crores, 4.1 would imply an annualized EBITDA of about 8500 crores which is roughly about Rs. 6500 per tonne. So if you can just help us understand this ratio?

Seshagiri Rao: It is based on the last four trailing quarters' EBITDA. That is why the ratio is going up. Even though the debt has not gone up substantially relative to 31st March 2015, the ratio is adverse because the EBITDA margins have come down in the September quarter, December quarter and March quarter. EBITDA absolute number has come down that is why the ratio has gone up to 4.5 times.

Naveen Gupta: If we were to annualize the current quarter's EBITDA on your full year guidance of 12.9 million tons, the net debt to EBITDA that I get is roughly about 5.6x net debt to EBITDA…

Seshagiri Rao: That is what I am saying; it is based on the 12 months' trailing EBITDA. It is not based on the annualized EBITDA for the quarter.

Naveen Gupta: What are your debt covenants at the standalone and consolidated levels, do they look at the trailing or would they look at the current because there is a sharp deterioration in earning, right? So looking at trailing does not make a lot of sense, looking at last 12 months because there has been a sharp fall in EBITDA per tonne?

Seshagiri Rao: As we have been clarifying, these covenants are applicable for the standalone company. At standalone company level, the Net debt to EBITDA is 3.66x, our covenant is at 3.75x. So we are now approaching the lenders to get some flexibility on this ratio. So even though it may not happen, but taking this into account we are approaching the lenders to get flexibility on this.

Naveen Gupta: So what I was trying to understand is are the lenders comfortable looking at a trailing 12 month number given the sharp correction and earnings that we have seen and the sharp decline in the cycle we have seen?

Seshagiri Rao: This is as per the covenants which we have signed. As per the agreements, we have signed, it is based on the trailing 12 months EBITDA.

Naveen Gupta: Can you just also, what was the exit quarter ASP, blended ASP was roughly about 33,450 for the quarter. What was the exit ASP in this quarter, or the current ASP if you can share?

Seshagiri Rao: Generally we do not give that number as it is very difficult to give that number. However, we would like to note that the prices have fallen in this quarter relative to last quarter; NSRs have fallen by 7%.

Naveen Gupta: But will it be fair to assume that the current ASP would be lower than the average of the quarter right, directionally?

Seshagiri Rao: Directionally yes. However, there is again a lot of improvement which we are doing; where our value added products ratio is improving and we are changing our geographical mix. Thereby it is very difficult to guide you saying that the same will continue. But our focus is to improve this Rs.4,845 per tonne EBITDA going forward, either by changing the product mix or by reducing costs or inventory losses. The inventory losses, which were there in the last quarter, will not be there in this quarter. During this quarter the benefit of the lower iron ore prices will accrue to the company. The benefit of the lower coal prices, which can be lower by $5-6 per ton, will also accrue to the company in this quarter. Taking that into account, we are seeing how to preserve these margins and improve upon it.

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

Saumil Mehta: Just want to understand what was the raw material cost savings this quarter and probably in next quarter how much has the iron ore cost fallen on a Q-on-Q basis, so any guidance for couple of quarters would be great? The blended INR cost is what I am looking for?

Seshagiri Rao: Let me try to address this. On 31st March 2015, we had almost close to 1.6 million tonnes of imported iron ore stock, we have consumed 1.1 million tonnes during Q1 and there is around 0.5 million tonnes of imported iron ore available as on 30th June or 1st of July. So, going forward our domestic iron ore proportion in the consumption will increase. Then, there is the reduction which has happened on 1st of July in the iron ore price by NMDC by Rs. 300 per tonne, that benefit will come in partially. The full benefit of reduction in domestic iron ore price, which happened in the last quarter, wasalso not reflected in the Q1 results as there was opening stock of imported iron ore and also domestic iron ore which we had bought in the auctions. That is fully exhausted as far as domestic ore is concerned. So whatever new iron ore, which has been coming in, has been coming at the revised priced of Rs.1,960 per ton of NMDC and at Rs.1,660 per ton from 1st July onwards. So this benefit will come in this quarter. It is difficult for us to quantify how much would be the impact of the above, and we expect further corrections can happen in the iron ore prices going forward in this quarter. So the iron ore prices in Q2 will be lower than the last quarter that much we can tell.

Saumil Mehta: If you can just tell the 27% Y-o-Y growth you saw in the domestic volumes how sustainable is that and probably what led to the substantial growth because if I look at the JPC numbers and your competitors, what they are guiding is fairly lower than what we have reported. So what led to the substantial jump and how sustainable is that?

Jayant Acharya: So on the domestic side, if you see our sales of 2.66 million tonnes has shown a 27% growth as you rightly said. In the beginning of this financial year, we had guided that we would reduce our export component to 16% from about 26 odd percent level which we had last year. In line with that we had planned our strategy to increase our domestic sales. So, we have ended this quarter with export sales of 14% and domestic sales of 86%. In domestic market, we have grown in the industrial and OEM segment as well as the retail. The industrial and OE segment, as you may have seen in the presentation, has grown by 13% and retail has improved by 77%. Now in retail, we feel that 'certain sustainable strategies', which we have taken, and market penetration in non-branded products will help us to retain our volume growth which we have shown in the last quarter. So we have taken a lot of initiatives on the brand building side. We have actively improved our network. We have added about 950 dealers and retailers in the last quarter. We have done many Influencer Engagement Programs across the last few months consistently. In the last quarter itself we have done 77 engagement programs covering about 4000 odd people. The visibility of JSW brand is increasing and there by the sustainability in retail looks possible.

Saumil Mehta: My last question if I may, with the further rise in debt by about 2000 crores and things not looking great, should we expect moderation or at least a relook of some of our expansion projects or probably we are halfway through and it does not look possible at this point in time?

Seshagiri Rao: I think that we need to complete the expansion projects which we guided at the beginning of the year. We are working on the 4 million tonnes projects –2 million tonnes at Vijayanagar, 2 million tonnes at Dolvi. That will give us additional volumes and start giving the returns on the investment which we have already made, so we are in a very advanced stage. We will complete at least Dolvi by December and we are looking at even Vijayanagar. So, the Rs.5,000 odd crores guidance, which we have given for the CAPEX,we will be spending in this year.

Moderator: Thank you. We have the next question from the line of Ritesh Shah from Investec Capital. Please go ahead.

Ritesh Shah: Can you please repeat the covenants, I heard its 3.75x for net debt to EBITDA, and how much would it be at the gearing level?

Seshagiri Rao: Standalone net gearing is 1.13x and the consolidated is 1.66x. Net gearing covenant is at standalone level and is stipulated at 1.75x.

Ritesh Shah: That is on standalone. So 3.75x and 1.75x.

Seshagiri Rao: Yes.

Ritesh Shah: Second I wanted to check as we are not quantifying the blended iron ore cost on a sequential basis, is it possible to give some color on the blast furnace feed. The total quantum of Lumps that we are buying from outside and the total quantum of Fines that we are buying from outside?

Seshagiri Rao: It is also a dynamic situation because in the auctions we look at the pricing of Fines and also the pricing of lumps, based on that we continue to change our mix. So, it will be very difficult to guide on that. Technically, we can use fully Lumps or fully Fines, there is no problem. So that is why I think that we have to leave it open, what types of mix we do.

Ritesh Shah: But we have guided for 4 million tonnes of imports this fiscal, so we stick to that guidance?

Jayant Acharya: No, we have said that we would import iron ore if there is a need. We are seeing that the opening of mines in Karnataka and Orissa is increasing the domestic availability. NMDC is also increasing its production. So, in the last quarter because of that we did not need to import.

Ritesh Shah: Lastly sir, what is it that we as an industry are doing to curb imports. We have heard a lot about basically most of the countries have done something or other. So how is it that the industry is approaching the government to expect something specifically finance ministry has given a statement that further increase in import duties have been ruled out?

Jayant Acharya: We have approached the government with trade remedial measures. We have filed cases for certain products and we do hope the government will look into it seriously, seeing the extent of damage it is doing to the steel industry in terms of profitability and in terms of capacity utilization both.

Ritesh Shah: Again sir if would be great if you could provide some color basically when you say trade remedial measures, so it we are referring to antidumping CVD, how does that exactly work, so what can we expect?

Jayant Acharya: We have applied for safeguard duty for hot rolled coils, color coated and wire rods. So, if the government thinks that there is an injury then safeguard can be implemented. If safeguard is implemented, Safeguard as a measure can cover all countries at the same time, whereas antidumping is against a particular country because of the injury that country is causing to you. So we are looking at safeguard and safeguard is something which basically can be triggered if there is an injury by virtue of surge in volumes of imports or if there is a potential threat of injury.

Ritesh Shah: Are there any hardcoded numbers wherein the government takes a stance that yes it is an injury to the domestic steel industry or let me put it the other way, what is the timeline that we are looking at and secondly does the safeguard also include FTA countries.

Jayant Acharya: Yes, the safeguard includes FTA countries as well. As regards to the timeline it will be difficult to say but I think given the seriousness of the situation we are expecting that some action should happen sooner than later but we have to wait actually.

Moderator: Thank you. We move on to the next question that is from the line of Mittul Kalawadia from ICICI Prudential. Please go ahead.

Mittul Kalawadia: Just wanted to understand, see we have been talking that if the cash flows are constrained due to the commodity cycle being bad, we would also look to do lower CAPEX. I believe that yes the current CAPEX that we have announced for the 5000 crores that we need to at least continue to complete, but going forward after that what would be the scenario that you are looking at. Would you really look to no kind of CAPEX from next year onwards or there would be a continued policy on that side?

Seshagiri Rao: As we have mentioned at the beginning of the year if the situation continues to be challenging then we will review our CAPEX program for next year. However, as on date, we have guided a total CAPEX of Rs.9000 crores over the two years, Rs.5000 in this year and Rs.4000 next year. This Rs.4000 crore for the next year we will definitely review, if required. That is one. Number two is that we are seeing opportunities for backward integration. The category C mines in Karnataka can get auctioned as the review petitions are being heard by the honorable Supreme Court, if the review petitions are disposed-off and the scheme given by the Karnataka government is approved by the honorable Supreme Court. We are hopeful that they will approve the same and the state government is in readiness to auction at least 9 to 15 mines. So, this will be an opportunity for JSW Steel to participate in the category C mine auctions in Karnataka. We are focusing on it. Similarly in case of auction of the coking coal mines, we have been technically qualified for the Parbatpur mine. So, this is another mine where we will be participating aggressively. Another opportunity is relating to auction of iron ore mines which can come for auction in different states, not only in Karnataka but in other states also. So this is one area where we will focus and increase our integration. We feel this is the right time to work upon it. As far as the review of CAPEX is concerned, we will review if the same situation continues up to the end of the year.

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

Chirag Shah: On the last conference call you mentioned various areas that you are looking at to cut cost and if I look at other expenditure this quarter that has come off sharply it appears to me that there is some savings that we have got on Stores & Spares and logistics etc. So if you can just elaborate little bit more on that, how much more is possible, that is number one and number two, you mentioned that the spread that you have not been able to cover through the cost reductions is about Rs.600 a tonnes. Now if I were to look at the current quarter, you had a further fall in steel prices but you have also seen correction in your raw material prices. How would that Rs. 600 number looks like in the current quarter as we speak?

Seshagiri Rao: Again there are lots of variables. Assuming that the steel prices will remain at the same level, there is likelihood of 2-3 benefits which can flow in this quarter. One is inventory losses which were there in the last quarter. This quarter it would not be there. Second one is the iron ore prices which have fallen and the benefit has not come, that will come. In Coking coal prices, $5-6 per ton benefit will come. In addition to that, there could be other cost reduction measures which we have identified. We have got approximately Rs.200 crores reduction in other costs in the last quarter. So, we expect that more cost reduction can happen in various areas.

Chirag Shah: The 200 crores is over and above the raw material cost?

Seshagiri Rao: Yes.

Chirag Shah: So on that front, how much more is possible in terms of cost reduction?

Seshagiri Rao: We will have to see this but we are working very vigorously to reduce the costs further.

Chirag Shah: On the Chilean mines, given the fact that Iron ore price has come off further, is there a one off that you have kind of included in that profitability because the numbers are still positive and considering where INR prices are, I would have expected that subsidiary would have reported loses?

Seshagiri Rao: No, there was an opening inventory as of 1st April which we have sold in this quarter. That is why there was very marginal EBITDA of $0.68 million. So it is not a big amount considering we have sold 1,70,000 or 1,68,000 tonnes of iron ore in the last quarter.

Chirag Shah: The fixed cost in Chile if you do not operate would be about $1.5 million a year, is that number right?

Seshagiri Rao: Yes.

Chirag Shah: That is a small number, I understand.

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

Sanjay Jain: I have two questions, first is to Mr. Rao on the annual report. There was a company in which we have taken 40% stake that is called Dolvi MMPL for setting up Coke

Oven Plant. So first of all I want to understand what is the rationale behind setting up this Coke Oven Plant and why we only have 40% stake in this? The second question is, this domestic pricing of steel, we are seeing continuously prices of steel coming down and we are following that with a lag and as a result we are seeing lot of imports coming in. In other words let me ask this way, countries like Japan and Korea who perhaps have higher cost of operation they are able to export in our country and we are actually not able to export and leave apart the export we are not even able to prevent imports by aligning our prices fast enough. It looks like we are trying to protect our margin but margin anyway are coming down and on the other hand I feel that we are actually trying to protect the margin of the iron ore producers rather than the steel producers because if you have particular price level prevailing in our country, then all the other steel producer also sell at the same price and they can afford a little more cost of iron ore but if the price go down they will push the prices of iron ore down to that much extent that you will any way earn the same margin. So what we are losing out in this strategy is that we are seeing a flood of import which could have been otherwise prevented, if we are more agile in adjusting prices. This is not particularly I am talking about JSW Steel but as a whole Indian steel industry as such. Any thoughts on this?

Jayant Acharya: So on the second question with regards to pricing; you are right that prices have come down sharply. So over the last three months we have seen prices, let us say in April -June quarter, it has dropped by may be $50 odd per tonne and if you were to look at January to June, then the drop is more. So yes, it is flowing into India with a lag but this reduction which has happened off late does not seem to be fundamentally effective and especially if we look at the number which is offered by the Chinese because I think when you adjust for freight, ex-mill price would be below their cost. So it may not sustainable, is what we believe and we need to see whether that holds true as we go along. The Japanese and the Koreans have although reduced prices from the levels of $400/t to about $375-380/t and are holding at that level now, their cost of production is also more than this right now because if they export at $380/t then their FOB price would be about $350/t, which is likely to be lower than their cost of production. So, we believe that if imports are blocked through the safeguard mechanism and if it is expedited then that would be more effective. If we take a drastic call in terms of price reduction that not only will cascade into inventory losses across the system, it will also have a very large impact on the repayments and servicing the loans, etc.

Seshagiri Rao: Coming back to your first question on the Dolvi Coke, we have been explaining that the natural gas which is used for DRI production is very expensive. So we have to find a long term solution for replacing natural gas with coke oven gas. So we have tried this with the 1 million tonnes coke oven plant which is already operational in Amba River Coke Limited, a 100% subsidiary of JSW, by partly replacing the natural gas being used in the DRI. To replace the balance natural gas, we would need to set up a 3 million tonnes Coke Oven Plant. If we set up a 3 million tonnes Coke Oven Plant, we cannot use the entire coke until we take a call on the expansion from 5MTPA to 10MTPA at Dolvi. As of now we are not looking at this 5MTPA to 10MTPA expansion. However, in the meantime, we thought that as this project is viable on its own by just replacing the natural gas with coke oven gas, let us get all the approvals in an SPV structure under the Dolvi Coke company. That is how this particular company has been formed where we hold 40%, balance 60% stake is held by financial investors, like Axis Bank and Standard Chartered Bank, these are the banks which hold the balance. However, as you know that the situation is changing dramatically, we have put this project also on hold and are working only for the purpose of getting approvals such as environmental approval etc. All of that will take a very long time for the coke project. That is how this project has been conceived.

Moderator: We will move on to the next question sir. That is from the line of Ravi Shankar from Credit Suisse. Please go ahead.

Ravi Shankar: I wanted to know what is the reason behind the increase in the net debt during the quarter, so it has increased by 2100 crores. The cash and cash equivalents have come down by around 200 crores whereas EBITDA if you see even after paying the finance cost you would have been left with around 800 crores. So has there been a pick-up in CAPEX this quarter or some working capital impact has factored in?

Seshagiri Rao: No, it is purely a working capital impact because earlier we used to import iron ore, now we are going back to the domestic market. So, we have paid those iron ore creditors/ iron ore acceptances in this quarter. So to that extent, it has increased. Otherwise, there is no increase in the debt.

Ravi Shankar: But the acceptances number seems similar. So it is 1262 and 444 are the revenue and capital acceptances right?

Seshagiri Rao: No, the revenue acceptances are at $1,262mn as against $1,578mn in the last quarter, this is almost a $300mn reduction in acceptances.

Ravi Shankar: And on the capital side?

Seshagiri Rao: Capital acceptances are more or less same.

Ravi Shankar: During the quarter?

Seshagiri Rao: Yes.

Moderator: Thank you .The next question is from the line of Dhaval Doshi from Phillip Capital India Pvt. Ltd. Please go ahead.

Dhaval Doshi: First with regards to our JSW Coated subsidiary, there the increase in EBITDA on a sequential basis has been quite sharp. So is it more of a sustainable kind of jump or has there been some one off in this quarter?

Jayant Acharya: At JSW Steel Coated Products, which is in to the value added products, we have seen a seasonal advantage. The April-June is usually a better season. Secondly we have reduced our exports as well. So we have increased our domestic component, our exports has come down to 14% levels today, vis-à-vis the total sales. So that is another reason. Third is that, in the branded category we have expanded our reach in retail. We have increased our presence into solar power. We have increased our presence into the appliances industry. We have by and large approvals from all of them and that volume there is increasing. So this is something which makes us believe that it should be sustainable.

Dhaval Doshi: Just one last thing, what would be the inventory losses in the US operations, the quantum?

Seshagiri Rao: $4-5 million.

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

Pinakin Parekh: Just trying to understand industry profitability and also about the safeguard duties and what do you think is causing the delay?

Seshagiri Rao: As far as the industry profitability is concerned, you know the numbers, the total debt to the steel industry in India was of Rs.2,73,000 crores, so out of that approximately Rs.1,50,000 crores is under stress. Based on that, 60% of steel industry in India is stressed. They cannot service its debt. That itself indicates that there is a huge amount of stress. So the same analogy if you extend I think 40% of the steel industry in India can be still profitable at this level.

Pinakin Parekh: Only 40%, and then why is there in your view such a delay regarding the safeguard duty, is it procedural or is that government believes Make in India is better served by cheaper imported things?

Seshagiri Rao: No, as far as the safeguard duty is concerned it is majorly subjective. Subjective means only two points we need to satisfy to the government. Number one, is that there is a surge in import. Number two, if there is an injury to the domestic industry. So if these two points are to be satisfied then it is a subjective decision whether they are satisfied or not. So we are now working with the government, providing the data, surge in imports is very easy to do. Number two; damage or cause injury to the domestic industry is concerned entire industry minimum 50% of that particular product producers should give the data.

Pinakin Parekh: The safeguard duty will be across the board increase in import duty or will it remove the FTA exemption that are there?

Seshagiri Rao: Safeguard duty, whatever is imposed by the government as it deems fit and proper, is applicable to all countries including FTA.

Pinakin Parekh: So that might include an increase from current import duty and it will be applicable to many more countries?

Seshagiri Rao: Import duty is different, that continues to be applicable. Safeguard duty is payable over and above that.

Pinakin Parekh: Lastly sir, how much net debt increase should we see going forward for the remainder of the year given where CAPEX is and given where current profitability is?

Seshagiri Rao: No, here we wanted to ensure that we will borrow only to the extent of repayments. However, as mentioned earlier that revenue acceptances related to iron imports have come down in this quarter and has resulted in increase in the debt. And now, the iron ores imports are not happening. So if the same situation continues then to the extent of further reduction in acceptances, there can be some increase in the debt.

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

Ashish Kejriwal: This is related to JSW Steel Coated although you try to explain but when I am looking at the numbers, there is 7% reduction in realization. So is there anything related to expense because of which we have seen doubling of EBITDA per tonne because in the last two quarters in 3rd and 4th quarter we are doing a same run rate and all of a sudden it almost doubled. So just changing the strategy in terms of branded category or reducing exports that may not explain the entire change in the EBITDA. So if you can help me out in that?

Jayant Acharya: The hot rolled prices have dropped more than the drop in coated product prices. So in terms of the margin, last two quarters there has been a carryover of the higher hot rolled prices which impacted the EBITDA. Now the coated product prices have dropped lesser than the hot rolled prices and to that extent the EBITDA levels /margins have improved as well.

Ashish Kejriwal: So you mean to say that will be sustainable because coated prices are got lower?

Jayant Acharya: I would put it this way that coated products prices are more resilient than the hot rolled prices. It could vary with respect to market conditions but usually it will give you higher margins.

Ashish Kejriwal: Secondly related to Chile Iron Ore mines, for the last few quarters we have been seeing losses. Although it is a small amount but I am just unable to understand why iron ore prices keeps on dropping and all of a sudden we had a EBITDA positive and secondly on the same front, the kind of investment and loans which we have given we are still not providing any provisions for that. So at what price we think that we will be able to provide that same, or any thoughts on that front?

Seshagiri Rao: No, at the end of March quarter whatever iron ore stock we had that was already impaired in that quarter. So, when we disposed of the opening stock of inventory in this quarter, even at the current prices, there is a marginal EBITDA.

Ashish Kejriwal: And about the second thing, in provision, the diminution of the investment and loans which we have given to JSW Panama Holding as well as Periama Holding?

Seshagiri Rao: As we mentioned in our notes, these are all long term investments and even though there is a drop in prices of iron ore right now, we are seeing how to restart the operations in the next few months. So, we will continue to evaluate but as on date we do not find any need to make any provision towards the loans given.

Ashish Kejriwal: To put in other way, what could be their cost of operations over there? At what price will be breakeven?

Seshagiri Rao: Even that can come down, but today if for instance if I say my cost is around $60 per tonne, the point remains is now we are negotiating with the contractor, we are renegotiating with the port. This is happening across the world. So it can become viable, it is not that $60 will remain and then we will lose the amount. We have started renegotiating already.

Ashish Kejriwal: Lastly two data points, one is what could be the EBITDA loss for JSW Salav unit for this quarter? Last quarter it was 42 crores?

Seshagiri Rao: Total EBITDA loss in Salav in this quarter was Rs.30 crores.

Ashish Kejriwal: Second data point related to non-steel sales revenue which we normally book in topline.

Seshagiri Rao: Pritesh will give it to you the details of the other sales.

Moderator: Thank you. The next question is from the line of Navin Sahdev from Edelweiss Securities. Please go ahead.

Navin Sahdev: Just one question. You mentioned about 200 crores of cost reduction which happed in Q1. Can you just throw some light as to it is coming in which particular form per se.

Seshagiri Rao: Stores & Spares is one area where we have got savings. Similarly, logistic is another area where we have got the savings, plus whatever negotiations we are doing either in the transport side or materials other than iron ore and coal like refractories, we have negotiated at a lower price than what it was earlier. So, these are the areas where we are able to squeeze some savings plus improvement in the yield, improvement in the fuel rate and cost.

Navin Sahdev: Logistic per se can be understood because may be because of let us ay fall in the oil prices, fall in the diesel prices per se, you can possibly negotiate a better logistic rate for the freight movement but stores and spares is something, will that be a sizeable amount sir, Stores and Spares?

Seshagiri Rao: Yes, it is also a good amount.

Navin Sahdev: Because I am still surprised, it is not like that a new plant has come up. So on a sequential basis, how could it result in a sudden saving per se and that too as you are saying is a sizeable amount.

Seshagiri Rao: It is all through innovation as we were explaining earlier for instance blast furnace, earlier we used to take shutdown once in a month for one day. Now we are taking it once in a quarter. So that will save lot of Stores & Spares. So that is happening in every operation.

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

Bhavin Chhedda: This 200 crores savings was in the single quarter or you are mentioning this as an annualized number?

Seshagiri Rao: This is for the single quarter.

Bhavin Chhedda: You are saying there is still more space to do on this front, right?

Seshagiri Rao: Yes.

Bhavin Chhedda: Ok, if I see the raw material cost it has fallen almost like Rs. 2100 a tonne on a quarter-on-quarter basis and I am assuming there was the iron ore inventory in the opening, so majority of that would be driven by the lower coking coal cost?

Seshagiri Rao: No, some impact has come due to iron ore prices also in this quarter in addition to the coking coal.

Bhavin Chhedda: Your coking coal in quarter one would have been already below $100 which was the contracted coking coal internationally in the April to June quarter because now you are saying that the coking coal savings would be just $4-5 because what I understand there is a 15% drop in the coking coal contracts, so why we are guiding for just $4-5 of savings, so I am assuming that this benefit would have been there in quarter one that is why you are guiding much lower savings on coking coal in coming quarter?

Jayant Acharya: So we have guided a coking coal blend in the range of $120-125 for the last quarter and I think we are by and large at that level. As far as going through is concerned, it would take some time because there is always a 60-day cycle by the time it reflects into your cost.

Bhavin Chhedda: Yes because quarter two contracts are down 15%, right? It said hard coking coal is at 95 FOB?

Jayant Acharya: It is basically more index-linked now a days, so its prices are index linked and they are more on formulas. There are some of them which are on quarterly which is contract based, but that percentage is sharply down. So we expect $5-6 further reduction on a conservative side to the quarter one numbers for blended coking coal.

Bhavin Chhedda: Just to take this question other way, because if I saw your annual report also I was disappointed by coking coal savings, so just to get it very clear, can I assume that if this price stay on a stable state basis we will see that savings two months down the line because we are still not able to see why coal savings are not reflected in the raw material numbers?

Jayant Acharya: Actually if you go by the month-on-month coal movement, you will see that in between for 2 months they had gone up as well, if you were to see the index-linked in the month of May it came down, in the month of June it went up, beginning of July it went up then again it started correcting. So I think these numbers at a point of time is very difficult to quantify, we would have to look at the average for a month and then see how that pans out because that is how index-linked would work.

Bhavin Chhedda: So you are saying this index number, no, what my question is assuming a spot price of 95 which the current coking coal is, assuming all the index and everything stays near this price, are we going to see a significant saving two month down the line or there is a different formula which we are not aware of?

Jayant Acharya: No, I think coking coal we would say is going to be a more of range bound kind of prices today, if we look at the coking coal as we speak today in Platts or TSI, it would be somewhere in the vicinity of $80-85 FOB for hard coking coal Australia. Now this number we do not expect has any significant downside. The price movement on coking coal may be range bound, so I think we will have to look at it from that perspective and then calibrate our coking coal going forward.

Bhavin Chhedda: Other thing on the iron ore, has the DMF, NMDC or the other players have started charging DMF on your Karnataka or other consignments and is that cost included in the quarter or not included in the quarter?

Dr. Vinod Nowal: This is the part of our cost which we have mentioned it, DMF is a part of that *(Please note that inadvertently in the call it was mentioned that DMF is already a part of price as it was confused with FDT)*.

Bhavin Chhedda: They have already started charging the same?

Dr. Vinod Nowal: Already they are charging on auction prices and already they are charging.

Moderator: Thank you. The last question is from the line of Willian Vanderpump from UBS. Please go ahead.

William Vanderpump: Just on the realization movement in the quarter sequentially, I think it comes out to about Rs. 3000 a tonne. I just wanted to get the sense of how much of that was market driven and how much of that was specific action or mix impact from your own business obviously volumes were quite strong in the quarter, I know in the May conference call you were relatively optimistic about the realization relative to the competition, if you could just give some color on that movement please. Thank you.

Jayant Acharya: The realization sequentially has dropped by about 7%-8%. So it would be in the vicinity of Rs. 2400-2500 per tonne. There would be some impact because of pan India expansion of our market which we have done, especially the penetration of the market, and the market prices which came off during the quarter which is down internationally of about $50. So, sum of these two. But we continue to increase our value-added product space. So you would have seen that, that is something which has gone up to 35%. We have also seen approvals for automotive and various grades including Galvaneal which has come from major automakers now. So we would start commercial supplies of those soon. We have also received approvals for the high tensile 980 MPa steel, advance high strength steel for automotive which is the first of its kind from India. We have received approvals from appliances manufacturers which would again lift up the value added space. So we are hopeful that we would be able to do better from the value added volume side and we feel the prices would have by and large been bottomed out and would remain range bound in the future.

William Vanderpump: Just to be clear, so when you talk about pan India expansion that is a case of you cutting your own prices to get into new geographical segments within India, I mean secondly on the import versus export, what was the difference in the realizations between the two categories in the quarter please?

Jayant Acharya: See different products have different NSRs, so it would be difficult to give a number to you. But what we can say is that we have reduced our exports by 40% if you see sequentially as well as YoY basis and whatever we are exporting today, that mix is more towards the value-added side. That is one action we have taken. Secondly in the domestic market, we have spread ourselves in two ways; one is that we have increased our branded portfolio. We are trying to increase our presence in the automotive. We are trying to increase our presence in the appliances and with more TMT coming in we are trying to expand our presence through the retail channels and take that down to the last mile. So there are certain costs of geographical expansion with respect to logistics which has some impact in terms of the overall fall in realization as well.

Moderator: Thank you. Sir, you may add your closing comments before we conclude. That was the last question.

Seshagiri Rao: Thank you very much and only point which I wanted to bring to your attention is that we are planning to expand by 4 million tonnes, 2 million at Vijayanagar and 2 million tonnes at Dolvi and also blast furnace at Salem is coming up for relining. So there will be shutdowns in the Q2 and Q3, which will happen for relining and also for expansion.. But our guidance for the year 13.4 million tonnes production and 12.9 million tonnes sales will remain. We will be able to make it up even if the shutdowns are there. We have factored these shutdowns when we have given the guidance. That is one. Number two is, in this quarter as far as the margins are concerned, I will again reiterate that we are working towards improvement of the margins. The inventory losses which were there in the first quarter are not there in the Q2 and the benefit of coal and iron ore prices will also come in this quarter. So, the margins can have an upside to that extent in this quarter. This is the second point. Third point is the challenge/ threat of imports at dumping prices remains. So we are looking towards the government and we are hopeful that government will take appropriate step and thereby these imports will moderate going forward. If it continues as they are then I think there will be a problem. There will be pressure on margins and prices. Thank you.

Rakesh Arora: Thank you Mr. Rao and thank you everyone for joining in.

Moderator: Thank you very much sir. Ladies and gentlemen on behalf of Macquarie Capital Securities that concludes this conference call. Thank you for joining us. You may now disconnect your lines.