"JSW Steel Limited – 2QFY16 Earnings Conference Call"

October 21, 2015, 5.00pm, Indian Standard Time

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

Call host: **Mr. Ritesh Shah – Analyst, Investec Captial Services, India**

Moderator: Ladies and gentlemen, good day for the JSW Steel Limited 2QFY16 Earnings Conference Call hosted by Investec Capital Services, India. 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 now hand the conference over to Mr. Ritesh Shah from Investec Capital Services. Thank you and over to you Mr. Shah.

Ritesh Shah: Thanks Margaret. Good evening everyone. Thank you for joining us on this call. We are honored to host management of JSW Steel. I will hand over the call to Pritesh Vinay from Group IR and would request him to introduce the management team. Pritesh, over to you.

Pritesh Vinay: Thank you Ritesh. A very good evening to all the participants who have dialed in for the 2QFY16 results of JSW Steel. We have with us today Mr. Seshagiri Rao – Joint Managing Director and Group CFO, Mr. Jayant Acharya – Director (Commercial and Marketing) and Mr. Rajeev Pai – CFO of the Company. We will keep the format simple. We will start with a few minutes of opening remarks by Mr. Rao who will sum up the business performance and then we will open up the floor for Q&A. So over to Mr. Rao.

Seshagiri Rao: Hello. Good evening to everybody and I wish you all a very happy festive season and a Happy Dussehra. You have seen our performance for 2QFY16. This is an environment where world economic growth is slowing down and commodity prices are at the worst levels since 2008 and there is a big slowdown in China; much slower than what is getting reported and a really severe contraction in Brazil and Russia. There is a fall in investments in mining, metals, infrastructure and oil and gas and in particularly steel side there is a supply driven downturn which we are seeing. So this is the environment in which these results are being delivered by JSW Steel.

You must have seen the WSA (World Steel Association) numbers. For CY2015 estimate, there is a 30 million tonnes production adjustment, production has come down by 2.5%. But China is not reducing the production to the extent their demand is falling. That is why we are seeing the 83 million tonnes of steel exports from China - a 32% growth in the first 9 months of this calendar year. What is more concerning is the September export number from China of 11.25 million tonnes which is over 130 million tonnes on an annualized basis . They are exporting at any price, incurring losses at the operating level which is a matter of concern.

If we look at as far as the India story is concerned, the finished steel production in the first half FY16 has come down by 0.7% (as per JPC numbers) whereas consumption has grown by 4.1%. The imports continued to hurt the industry in the first 6 months of the year, total steel imports have grown by 42%, and the finished steel exports have fallen by 26%.

So within this context if you see JSW Steel results, we have reported crude steel production of 3.25 million tonnes which is a fall of 1% on YoY basis. It's majorly due to shutdown of one of the blast furnace which we have taken at Vijayanagar from 19th of August. That is the reason why you have seen 3.25 million tonnes production. But what is notable in the result is the highest ever quarterly sales of 3.19 million tonnes which is a 4% growth year-on-year. In addition to the growth of 4%, the important point to note is the way we have swiftly changed our total sales strategy by increasing the retail sales by 80%YoY and reducing the exports by 59%YoY. Our overall domestic sales grew by 22% YoY. Our branded products sales has grown by 115%. So there are a lot of changes which we have made in our sales strategy. That is why we could achieve highest ever sales volumes. What is also very important here, when the incremental demand for steel in India has grown by 1.6 million tonnes, our incremental sales in the domestic market is over 1 million tonne. So 2/3rd of the total incremental market has been taken by JSW Steel.

In spite of increase in the sales volume by 4%, our gross sales have come down by 17% to ₹10,780 crores. This has come down because the NSR on a blended basis has come down by 21% year-on-year. Our net sales have come down by 19% to ₹9,652 crores, mainly due to NSR fall. Our operating EBITDA has improved quarter-on-quarter to ₹1565.76 crores which is a 16% EBITDA margin but compared to the corresponding quarter it has fallen from 21.7%.

One important change I would like to share with you is with regards to depreciation. As you know there is a change in the Companies Act 2013, where depreciation can be provided based on the useful life of the asset, and component accounting has also been made mandatory as per the Ind-AS (Indian Accounting Standards) which is becoming mandatory from 1st of April 2016, and even previous year has to be restated as per the Ind-AS. We had appointed an external technical expert who studied the components of our plant and machinery and made recommendations. Taking into account this change and also the changes in the Companies Act for determining the useful life of the asset, we have charged the depreciation from 1st April 2015 and our depreciation has changed. So that is why the depreciation for the quarter has come down to ₹510 crores as against ₹752 crores in the 30th June Quarter. Here, the adjustment is for two quarters. So a total of ₹249 crores depreciation has been reduced here for the first half of FY16. But for the next quarter normal depreciation will be ₹510 crores plus ₹125 crores ie about Rs 635 crores. So this is one change which has happened as regards to depreciation.

As you know we have been working continuously to reduce our interest costs. So on a year-on-year basis you will find interest cost reduction. Profit after tax for Standalone Company is ₹241 crores in this quarter. Our subsidiary, Amba River Coke is doing quite well. It has reported an EBITDA of ₹82.81 crores in the quarter. Our JSW Steel Coated Products has done well. It has an EBITDA of ₹101.62 crores. Our Salav unit is not operating; we can use our DRI when we expand our capacity in Dolvi unit from 3.3 to 5 million tonnes per annum. So we would like to restart the Salav unit in the month of February 2016. But what we have done this quarter is that we have reduced our losses to ₹14 crores at this unit.

As far as the overseas operations are concerned – at US plate and pipe mills, the EBITDA loss is $3.10mn. At Chile the EBITDA loss was $0.48 million and in the case of coal asset in US, it is $0.87 million EBITDA loss. So taking into account the profits in various domestic subsidiaries and the losses in overseas subsidiaries, our 2QFY16 consolidated EBITDA is ₹1,729.26 crores as against ₹1,627 crores in the Q1FY16. So there is more than ₹100 crores improvement in the overall EBITDA for the reasons which I mentioned while explaining about standalone results. The profit after tax is ₹116.95 crores on a consolidated basis. Total net debt of the company is ₹39,000 crores. Our weighted average cost of debt is 7.15%. This is briefly about the results.

As regards to projects under implementation, JSW Steel has a strategy of making counter cyclical investments; it is investing when the industry is not doing well. We are investing and then creating capacities to leverage it as an opportunity as and when there is a turnaround in the demand side. So we have taken steps in the last two years to increase capacity by about 4 million tonnes from 14 to 18 million tonnes per annum. As explained, we have taken a shutdown at one of the blast furnaces at Vijayanagar on 19th August 2015 for modernization, relining, and also capacity expansion. So this will be re-commissioned in the month of December. Then we will become 12 million tonnes capacity plant at Vijayanagar. So, this 2 million tonnes expansion at Vijayanagar will get completed in December quarter. Similarly at Dolvi, we have taken the blast furnace shut down on 17th of October, so this will also get re-commissioned in December. So there, the capacity is going up by about 2 million tonnes. So 2+2=4 million capacity expansions will get completed in Q3, and we will become a 18 million tonnes capacity steel company for Q4.

As regards to the iron ore availability, there is an improvement in the iron ore availability, particularly in Karnataka. Last year the state produced 18.5 million tonnes. The run rate right now is approximately 24 million tonnes on an annualized basis. We had opening stock of imported iron ore of 1.2 million tonnes and gradually we are using that. Still we have 4 lakh tonnes of imported iron ore inventory at the end of 2Q. For Vijayanagar plant, we are buying iron ore only in the domestic market and we are able to operate the plant. Then the category C mines are now to be auctioned as per the directive of the Hon'ble Supreme Court within 32 weeks (from July 2015). The state government has indicated that 15 mines will be auctioned before the end of this financial year, probably starting from November 2015; JSW Steel sees it as an opportunity to acquire some of the iron ore mines in Karnataka.

A provisional Safeguard duty has been imposed on hot rolled coil; however, we could not see impact of it in the imports in the month of September as it came only in the first half of September. But if you watch what is happening in the market, we have not seen a big change as far as imports are concerned; they continue to come into India. So, we have been representing to the government that the safeguard duty or anti-dumping duty has to come across the value chain for all the steel products and then only the onslaught of Chinese exports at any price can stop. All the countries across the world are taking steps and putting trade remedial measures in the form of antidumping, safeguard or countervailing duties or non-tariff barriers. We are hopeful that the Indian government will also act. So, with this, I will just stop it here. If there are any questions, we are happy to clarify. Thank you.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Anshuman Atri from Espirito Santo. Please go ahead.

Anshuman Atri: My question is regarding margins. So considering that realization remains the same at the same level, how much expansion can we see on back of new products which will be launching and cost optimization measures?

Seshagiri Rao: Blended NSR, as I mentioned to you, it has fallen by 5% on a QoQ basis and on YoY basis it has fallen by 21%. So NSR has fallen. So assuming that the government of India's action on hot rolled coil will moderate the import of hot rolled coil in the domestic market and the government will act swiftly in case of other products also and thereby the damage or injury to the industry will not happen and domestic prices will be stable. So one assumption we are making is that the imports will get moderated. . Then the other thing which will happen is on the costing side. The iron ore prices have come down, the benefit of which will come. Similarly; coal side we expect at least another $5/t benefit which could flow to the company in the 3Q. These are two things which we expect on the costing side, where the benefit will come. Then we are improving our product mix from the 34% share of value added and special products which we have achieved. Our guidance is 37% for the year. So we are working towards that. We have commissioned our electrical steel plant. There, we have started producing and started supply to the customers. So that is picking up. There is a pick-up in Auto steel sales. So this product mix change hopefully should give a better margin to us coupled with reduction in the cost.

Anshuman Atri: Okay sir and second question is on category C mines. What would be the total quantum of the mine which will be auctioned and how much can we expect to win in this auction given our presence in Karnataka?

Seshagiri Rao: The 15 mines which are ready for auction, if we look at guidelines given by the Supreme Court then 11 million tonnes per annum production can come in from these 15 mines, as per the estimated resources even after considering that the resources have to sustain for a period of 20 year. But there is one clause in the R&R policy. As per the clause, the total production will be restricted by one of the following three items: One is resources base divided by 20, second is dumping capacity, and third is evacuation capacity. Whichever is lower out of these three that would be the production limit for these 15 mines. So, as per the R&R policy which is getting finalized by the ICFRE, we think it will come down to may be 4-5 million tonnes per annum. That is what we are expecting. So, the worst case is 4-5 million tonnes and the best case is 11 million tonnes per annum.

Moderator: Thank you. The next question is from the line of Indrajeet Agarwal from Goldman Sachs. Please go ahead.

Navin Gupta: Navin here, two questions from my side**.** Assuming iron ore prices remain where they are at NMDC prices**.** What is the benefit that we could see in Q3 versus Q2?

Like you mentioned $5 savings on coking coal what is the similar benefit we can see in Iron ore?

Seshagiri Rao: Iron ore prices, as you know, have corrected by ₹200 in the case of fines. So these ₹200 will translate to ₹360 to 400 per tonnes of steel. So that benefit will definitely come but not for the entire quarter because we have already bought some material in the beginning of the quarter, so if it is still available for use in the month of October. So we expect this Rs. 360 per tonnes benefits should come at least in November and December.

Navin Gupta: And sir also, if you can just help us understand what is the current steel price that you are getting on a blended basis, compared to the second quarter average. Just wanted to understand what is the delta between what we have reported in the second quarter and what is the price that you are receiving now?

Jayant Acharya: The prices Q1 to Q2 have corrected by about ₹1,550 odd per tonnes. As we go forward into Q3 your question is about how the prices will perform in Q3 right?

Navin: Yes, the current prices, how the current prices versus the Q2 average?

Jayant Acharya: So, we have been able to maintain our prices by and large in the month of September for flat products, however for long products the prices continued to be under pressure as we entered into Q3 primarily because of the investment cycle not having yet fully played out. Meanwhile the Chinese offers, which have actually come down by about $30-$40 post the safeguard action, would have some impact on the flat side probably when they would arrive somewhere in the month of December. They could have some impact in terms of the overall price sentiment at that point of time. However, it is very difficult to put a number to it.

Navin Gupta: Mr. Rao if you can just summarize the last two points, so does it mean that even if you assume steel prices remaining where they are, our EBITDA per tonne would expand by maximum of ₹300 to 400 per tonnes in the third quarter assuming no significant changes in the product mix in the third quarter.

Seshagiri Rao: We also talked about $5 per tonne, there could be a benefit on account of coal that also has to be factored in other than the iron ore cost benefit. Then there are the other areas where we are working to reduce cost which I shared at the time of the first quarter results such as logistics, idle freight, and material procurement cost other than iron ore and coal. In these areas, we can squeeze some more savings. So these three together should bring down the cost and if the selling price remains at the same level, we feel that the Q3 should definitely give better margins. But only one caveat is that we have taken the shutdown at our Dolvi unit. Almost entire unit is shut for one month and then for the balance period there will be very moderate production until it restarts at the end of 70^{th} day from the shutdown. There will be fixed expenses during the period which should also be factored-in as far as Q3 is concerned.

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

Varun Ahuja: My first question is on trend of iron ore and coking coal. What are the trends that you are seeing for Q3. And secondly on leverage and gearing, it obviously seems to be quite high even by a comfort level. In some cases they have breached the bank loans. So can you guide that, given that credit investor will be concerned from all these, what are the steps that you are taking for deleveraging and what the discussions with the banks are? Thank you.

Seshagiri Rao: As far as the iron ore and coking coal prices are concerned, both are expected to be bearish. If you see today, iron ore supply is more than the demand. In that environment it is expected that the iron ore prices will not go up internationally and the prices have a downward bias. Coal should be range bound. We do not see a big fall as far as coking coal prices are concerned and that trend will continue in Q3. As regards to domestic iron ore prices, we do not expect a big reduction by NMDC particularly in the context where government of India has permitted them to export 5.5 million tonnes of iron ore which is signed with Korea where the duty is reduced to 10%.

As regards to your query on the leverage is concerned, we have been guiding that the total debt will be around ₹40,000 crores, we want to restrict it to that amount. The majority of the capital expenditure, being incurred for expanding capacity from 14 to 18 million tonnes, is getting completed in this quarter. There is a capacity enhancement of 4 million tonnes per annum which can come in 4Q. Therefore our EBITDA in absolute number is expected to improve with additional volumes. So with that we will be able to reduce our leverage ratio. I agree with you that the current leverage is high on account of steep fall in the realizations. We have taken steps not to increase the debt, we have also moderated our overall CAPEX and then we are working on how to improve the EBITDA going forward and thereby to bring down the leverage to the desired levels.

Varun Ahuja: Just a quick follow up. It seems from your comments that given the steel price trends even from safeguard duty, the pressure is still there and third quarter the margin per tonne could still be under pressure, may not be up to 2Q levels, but it will still be. Is that fair to say that?

Seshagiri Rao: For instances, the steel prices if they are stable, stable means at the same level as we are currently, then definitely cost side there are some benefits which can come in the current quarter. Therefore I do not expect a big pressure on the margin in the Q3. Only caveat is the prices remain stable.

Jayant Acharya: Also one more thing on the price from China, they are today below the marginal cost. Now the way they are offering in the last 15-20 days, the sustainability of those offers needs to be seen because we understand they are already incurring loses between $80-100 per tonne on the new offers of export.

Seshagiri Rao: One point we would like to clarify is regard to domestic iron ore pricing. If we see today, the domestic lump ore prices are at the premium relative to the fines compared to the international market. There can be some more correction in lump ore prices by NMDC going forward.

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

Pinakin Parekh: My first question is again on steel prices. For the last few months there has been a lot of pressure from Japanese and Koreans steel imports, which because of the FTA used to have lower import duties and the expectation was that the imposition of safeguard duties, import pressure from these two regions should reduce. So within that context sir, are we seeing any signs of that happening and shouldn't that lead to more stability in steel prices in HRC specially given that those grades were high grades?

Jayant Acharya: The provisional safeguard duties have basically given us a shield in the current supply demand scenario into India. We expect the supplies to moderate to some extent and as you said may be partly from the Japanese and Korean side, but it is wrong assumption that the Japanese and Koreans are present only in the value added steel. Actually the commodity component of their imports or say their exports to India have increased substantially. So I think while in case of Japan we see some moderation, we are yet to see that happening from Korea. Korean numbers are still quite aggressive. So I think, it would reduce the supply impact to some extent for this quarter given that the provisional safeguard is in place but we need to see how Chinese offers play out going into this quarter.

Pinakin Parekh: And sir where would the discussion with the government be on the extension of the safeguard duty to the entire value chain? I mean given that in hot rolled coil it took a lot of months and it went through a certain bureaucratic process. So where are we, today we want to talk to about extending into the cold rolled and other products, or is it just preliminary talks with the government?

Jayant Acharya: So you know the safeguard rules or the trade remedial measures have a process to be followed as per WTO. So the same has been followed for hot rolled coil in that process and for the matter of fact the action on the provisional safeguard duty, which has been imposed by the government, is very swift. Now the provisional duty will be applicable for a period of 200 days during which there will be a hearing and the final duty determination will be before March end. Now as far as the other products are concerned we have filed the safeguard petition for color coated. We are in the process of filing safeguard petition for hot rolled plates and sheets and wire rods where the impact seen is heavy. So we are progressing in terms of interacting with the government to cover other products as well.

Pinakin Parekh: And sir lastly on net debt, it has gone from ₹38,000 to 39,000 crores and given that we have this project on, as of today what is the outlook for the March 2016 net debt number. How much can it over shoot above the target at ₹40,000 crores?

Seshagiri Rao: No, we want to restrict it to around ₹40,000 crores by end of 31st March. So I do not think we want to exceed ₹40,000. We will be very close to that.

Moderator: Thank you. The next question is from the line of Anita Rangan from HSBC Asset Management Company. Please go ahead.

Anita Rangan: Just wanted to understand what your total debt of say ₹39,000 crores. What would be the debt of the US plate mill and other overseas debt?

Seshagiri Rao: It is consolidated debt including the debt of plate pipe mill, coke, etc.

Anita Rangan: Just wanted to know what would that debt of US side alone be, US plate mill because that is the one which is under stress now. Can you share that number?

Seshagiri Rao: It is very difficult to state facility-wise debt number. I will give the number which is the outside debt. Out of the ₹39,000 crores, the outside debt is ₹8000 crores including all the 3 acquisitions. This is the debt which is lying overseas. We raised this sometimes in the holding company and is guaranteed. Sometimes, we raised it in the operating company without guarantee. So all the subsidiaries together this is around ₹8000 crores only.

Anita Rangan: Out of your total product mix, because of this HRC duty, import duty, what proportion will have a positive impact, I am trying to understand. Like you are flat, production of say 5 million tonnes and long one million tonnes. So it is the total 6 odd million tonnes what proportion will get a positive impact from this duty?

Jayant Acharya: The provisional safeguard duty has been put on hot rolled coil. So it has a direct impact on the hot rolled coil business. It also has a little bit of rub off impact on the flat steel in general. I think now we have seen responses from the various importers to import cold rolled in lieu of hot rolled or go to other value chain items like galvanized or color coated. So our intention would be to cover the entire value chain of flat products so that the safeguard becomes more effective across the value chain.

Anita Rangan: And going forward after this CAPEX is like completed, what would the typical maintenance CAPEX be around?

Seshagiri Rao: Maintenance CAPEX will be close to ₹1,000 to ₹1,200 crores per annum.

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

Dhawal Doshi: Sir I just missed the conditions which you mentioned for the Karnataka category C mines in terms of the limit of the production. I am sorry if you could just elaborate a bit on that?

Seshagiri Rao: There are three conditions; one is based on the reserves for a period of 20 years. If reserves are 200 million tonnes then 10 million tonnes can be produced. That is total reserves divided by 20. A second criterion is evacuation capacity. We have to take it out, so based on the available logistics capacity how much can be taken out from the mine. This is the second criteria. The third criterion is the dumping capacity. The waste material which will come out, how much dumping area is available within the lease area. So based on history whichever is the least of the three criteria, that is the quantum which is permitted as per the R&R policy prepared by ICFRE. So that number is around 4-5 million tonnes whereas based on reserves it is 11 million tonnes. We just made a representation and the mining industry also made a representation. If the new allottee can take steps either in terms of evacuation or in terms of dumping, then he should be able to increase it to 11 million. That flexibility they have to provide. This is the request made by the industry. It is not considered yet. That is why I am saying best and worst case scenario.

Dhawal Doshi: So again these things are yet to be finalized, is it fair to assume that the auction will most likely happen next year. I mean to say the calendar year?

Seshagiri Rao: No, they have given 32 weeks' time from July, and the state government has committed in writing to the Hon'ble Supreme Court. They will do. In the worst case it could be 4-5 million tonnes, but auctions will happen.

Dhawal Doshi: And sir also Ministry of Mines has released a document which states that Maharashtra also you might see some iron ore mines coming up for auctions. So we are looking at that as well or for Dolvi operations or as of now the focus is only on Karnataka?

Seshagiri Rao: We are definitely looking at. We are very watchful. Even in Orissa or Rajasthan or Maharashtra anywhere if iron ore is available in India we will definitely look at it.

Dhawal Doshi: Sir secondly any revision in the CAPEX number overall?

Seshagiri Rao: No, there is no revision.

Dhawal Doshi: So the last quarter guidance will still continue, okay and lastly sir we have imported some quantum of HRC this time around, any specific reason for that?

Seshagiri Rao: As I mentioned to you that we were planning a shutdown of our Dolvi unit, which generally supplies entire quantity required for our downstream units in Maharashtra. So, we know that the shutdown would happen in this quarter that is why we have placed an order for import of around 95,000 tonnes. Balance requirement will be met either by Vijayanagar or from Dolvi, only the shortfall we are importing.

Dhawal Doshi: So 90,000-95,000 tonnes, that is about it.

Seshagiri Rao: Yes.

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

Jigar Mistry: Two questions, first Jayant, if JSW Steel is taking a market share of 75% of all incremental Indian shipments, at a time when the domestic industry itself is oversupplied, how is the competition reacting to it? That is one of the reasons why October shipment prices were not raised or across value chain, safeguard duty not being imposed is a more critical factor?

Jayant Acharya: First of all let me assure you the competition in the domestic market is intense. If you see in the domestic market, our volume increase has been mostly in retail. So, we have grown by 80%YoY in the retail business and that we have been able to achieve through network expansion, influencer engagements which we have taken with aggressively and better brand positioning exercises which we have done especially on the JSW Neo Steel TMT and the JSW Colouron products which are now yielding reults. So this has enabled us actually to gain market share. So on YoY basis, we have increased domestic sales by almost half a million tonnes, out of this half a million tonnes almost 400,000 tonnes would be in the retail segment.

Jigar Mistry: But would Tata and SAIL also not have an equally strong footing in the retail segment?

Jayant Acharya: They do have, but in the last quarter basically SAIL also had a bit of an outage from Bokaro Steel. There was a shutdown for some period which got extended.

Jigar Mistry: One question on the net debt, this ₹390 billion basically excludes the capital advances, right?

Seshagiri Rao: Yes, It excludes capital acceptances.

Jigar Mistry: Yes, that will be the same as the year end, which is roughly 25 billion, so 395 plus 25?

Seshagiri Rao: The capital acceptances are of around $441 million.

Moderator: Thank you. The next question is from the line of Indrajeet Agarwal from Goldman Sachs. Please go ahead.

Navin Gupta: Navin here. Sir just one question on if I look at the standalone balance sheet the long term loans and advances have increased by about 3000 crores, versus the March quarter, what is it regarding?

Seshagiri Rao: There was an overseas guaranteed loan. Earlier we had guaranteed the loan raised in the overseas holding company. So we have refinanced it from India and then give it as an advance to the overseas company. So it is coming as loans and advances in our balance sheet in the standalone company.

Moderator: Thank you. The next question is from the line of Bharat Shetty from Standard Chartered Bank. Please go ahead.

Bharat Shetty: Question is firstly as far as CAPEX is concerned what was the actual CAPEX incurred in H1 and what is the number going to be for H2 and if possible for FY17 as well? And second question is if I look at your depreciation number that seems to have gone down significantly for this quarter on a consolidated basis, just trying to understand what is happening there?

Seshagiri Rao: As far as the CAPEX is concerned we have guided that we will be incurring ₹5,200 crores in this year and ₹3,800 crores next year, total will be ₹9,000 crores over FY16 and FY17. We have incurred close to ₹2,450 crores for the first half as against guidance of the ₹5,200 crores of this year. So the balance will be incurred in the second half of the year. Our guidance for next year is also unchanged at ₹3,800 crores.

As regards to the depreciation, I think I have already clarified, the depreciation is based on the changes in the regulations one relating to Companies Act for change in useful life of the asset and second is related to component accounting which is mandatory as per Ind -AS which is coming into force from 1st of April, 2016. We have changed the depreciation relying upon an independent technical external expert opinion.

Bharat Shetty: So would it be fair to assume that that kind of depreciation will continue in subsequent quarter?

Seshagiri Rao: This quarter number reflects two quarters depreciation benefit which is close to ₹125 crores per quarter. So whatever is charged in this quarter plus ₹125 crores will be the normal depreciation in the following quarters.

Moderator: Thank you. The next question is from the line of Ritesh Shah from Investec Capital Services. Please go ahead.

Ritesh Shah: First thing is on debt covenant side, if I remember it right I think the last time we mentioned on standalone basis it was 3.75x trailing 12 month. I think currently we are around 4.55x. So if you could provide some color on that it will be great?

Seshagiri Rao: We already got relaxation from the lenders for the September half year. So we already have the approvals in place as on date. We are compliant with the covenant even though it is exceeding the earlier covenant. Then for the March quarter we have already approached to the lenders. We are confident that we will be able to get their consent for the revised numbers.

Ritesh Shah: Just to understand it right, basically it will entail a higher interest rate on back of this?

Seshagiri Rao: No, we have not agreed for any increase in interest rate. But we have got the relaxation for September. No extra interest.

Ritesh Shah: Second question more on the Capital allocation side you said that CAPEX numbers will be the same, however, there have been some news flow around cement plants in West Bengal, so if you could please clarify on our West Bengal plan?

Seshagiri Rao: That expenditure will be incurred by JSW Cement Limited which is an independent company. So JSW Steel is not going to invest anything in that.

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

Bhavin Chheda: Sir couple of questions if you are sharing, may I know landed iron ore cost and coal cost in the quarter?

Seshagiri Rao: Because there are so many locations it will be difficult. Even for the company as a whole, the problem is sometimes we import and sometimes we do not and therefore we do not like to give any number as far as iron ore is concerned.

Jayant Acharya: On the coking coal side the blended coal cost for last quarter was about $110/t, CFR Port in India. We expect it to be in $105 to $110 range that would be a $5/t kind of savings.

Bhavin Chheda: And sir now 60%-70% of your coal imports would be the premium HCC? You earlier had soft coal, PCI grade coal and all that. But now since Dolvi there is a new blast furnace, so majority would be premium grade coal?

Jayant Acharya: See, it varies in the same range because the coke ovens will consume hard coking coals, semi-hard coking coal and soft coking coals in a particular ratio. So it will maintain in the same range.

Bhavin Chheda: Regarding the HRC import figure of 95,000 tonnes. Sir this is already in or this is expected to come in now?

Jayant Acharya: It is expected to come in by November beginning. It will come in consignments but it will start coming in November beginning.

Bhavin Chheda: So you also would be paying a safeguard duty, this was ordered late and you will be paying duties on the same company right?

Seshagiri Rao: We have exports also.

Bhavin Chheda: Rights, so you will take a benefit of that.

Seshagiri Rao: Can be taken, yes.

Bhavin Chheda: Since you have CR Galva exports so you the benefits would be netted off, okay and regarding this auction of the mines sir, you mentioned will this clarification we have asked would delay the process by some months because first 15 mines lot was expected to be auctioned in November. So can that be delayed a bit because of the clarification of this 5 million or 11 million capacity?

Seshagiri Rao: We do not need a clarification, it is clear as far as the CEC recommendation and acceptance by Supreme Court is concerned. The State Government is not going to hold up the process because of this.

Bhavin Chheda: Because State Government is a maximum period of 32 weeks but they are starting the process in November. So I am saying that can the mines auctions go back-ended?

Seshagiri Rao: In the 32 weeks, they have also divided, so this 15 mines they may just have separate timeline that is before March.

Bhavin Chheda: So 15 mines has to be before March.

Seshagiri Rao: Yes.

Bhavin Chheda: At best 3-4 months delay can happen, not beyond that?

Seshagiri Rao: Unless otherwise the Hon'ble Supreme Court gives more time, otherwise as on date the order is they have to do it within those timelines.

Bhavin Chheda: And sir my last question is after the safeguard duty has the price hike in flat products flown simultaneously what I am trying to see is that the CR/ Galva also saw a similar hike or there has been a spread pressure to avoid imports into that segment?

Jayant Acharya: We have increased the price in the hot rolled coils in the month of September by 1%-2%. That is primarily again driven by the fact that the railway freight has gone up, by about ₹300 per tonne which was the peak season and the lean season freight difference and the balance would be towards rupee depreciation impact over the months. So it is actually not much of a price increase per se and as far as cold rolled and galvanized is concerned, you are right, there the pressure on the market continues as there is no safeguard available on that. So for that the price increase would be more difficult. I think the prices would remain by and large stable in that range.

Seshagiri Rao: Just one more point I would like to add with regards to your coal, you said coal requirement would go up for prime hard coking coal, but that has been clarified by Jayant. But I would like to add that when we expand our capacity by 4 million tonnes, 2 million tonnes at Vijayanagar, 2 million tonnes at Dolvi, there will be a shortage of coke. We do not have the coke ovens to meet the full requirement. So some coke will be imported.

Bhavin Chheda: That is when you start running at full 100% utilization.

Seshagiri Rao: Yes.

Bhavin Chheda: For incremental 2 million at Ispat, Dolvi.

Seshagiri Rao: And also Vijayanagar.

Bhavin Chheda: Okay, you are saying 1 million incremental at Vijayanagar also there will be a coke shortage?

Seshagiri Rao: Yes.

Bhavin Chheda: And on Jayant's part, you said that you took a price hike in HRC of 1% or 2% in September, right?

Jayant Acharya: Sorry not in September, October. After the provisional safeguard from beginning 1st October we took that.

Moderator: Thank you. The next question is from the line of Sumangal Nevatia from Macquarie Capital. Please go ahead.

Sumangal Nevatia: I just have two questions left with regards to the steel industry if you are seeing steel monthly data domestic production is up 4%-5% despite strong imports and lower demands. So do you have any sense of the steel inventory in the system?

Jayant Acharya: So the steel inventory in the system has gone up, actually the production has been by and large if you look at the first half, has been flattish and imports have gone up incrementally by about 1.7 million tonnes and the demand in the system has gone up by only 1.5 million tonnes. Moreover the finished exports have fallen. So we see an inventory increase in the system as a whole in India.

Sumangal Nevatia: So that is not significant, right?

Jayant Acharya: Yes, it is reasonable yes.

Sumangal Nevatia: Secondly if you can share the view on the demand outlook, few companies we talked to are expecting some pickup in demand post the festive season. So are there any Green Shoots visible in your view?

Jayant Acharya: As of now I would say the situation continues to be similar. As of now I do not see much of a Green Shoot; however, in some of the areas we see some public spending happening such as highways, some part of the ports and some power transmission lines and mining. In mining where some of the starts are happening which is resulting in a bit of medium commercial vehicle and yellow goods improvement. Going forward we see that the Andhra Pradesh and the Telangana area would be investing in terms of building the smart cities and water pipelines. So we are seeing some demand coming in that in this next half that is in H2.

Seshagiri Rao: And solar side, there is a definite traction. What is encouraging is that Indian steel demand grew by 4.1% in the first half. That is one positive which we can pick up. Even though the second quarter it has fallen relative to the Q1. The government is talking about increasing public expenditure and also on railways, defense and also traction should improve from solar and pipelines. These are the areas where there will definitely be additional expenditure, some pickup will happen.

Sumangal Nevatia: For the 4 million tonnes new capacity what is the expectation with regards to the utilization in next year?

Seshagiri Rao: As I mentioned to you that we have given the guidance of 13.4 million tonnes and 12.9 million tonnes of crude steel production and saleable steel sales respectively for the current year. So if you see the first half, we are at 49.62% in terms of production and in terms of sales we are at 48.75%, we are very close to our guidance. When we gave the guidance, we had taken into account the shutdowns both at Dolvi and also at Vijayanagar. So what we can guide for the balance half year is that we will definitely be able to achieve the guidance of 13.4 and 12.9. For the next year, I think we will come back to you when we will speak to you the next time.

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

Nitesh Jain; Can you share your current iron ore sourcing like how is it, I understand that we totally stopped import. On a company as a whole if you can say like 70% in some Karnataka or from Odisha or Chhattisgarh?

Seshagiri Rao: As regards to iron ore sourcing, our sourcing strategy is not for the company but we have it for unit by unit. At Vijayanagar we want to source 100% from Karnataka only. That is why we have guided in this year that excepting the opening stock of that 1.2 million tonnes we do not want to import anything for Vijayanagar. As regards to Salem and Dolvi, there the strategy is completely opportunistic. We compare the prices, landed imported cost versus NMDC or Orissa. One month we may not import, another month we may import. It is very difficult to say as it is a dynamic sourcing model for Salem and Dolvi.

Nitesh Jain: And secondly sir if you can share what would be approximate freight cost on iron ore procurement in Bellary-Hospet region like will it be ₹400 or ₹600 per tonne of iron ore.

Seshagiri Rao: Yes, it is ₹400-500 per tonne on an average.

Nitesh Jain: And secondly from Bailadila we are not sourcing anything currently or we have to still getting some rakes.

Seshagiri Rao: We are getting some rakes for Dolvi.

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

Saumil Mehta: Most of my questions have been answered. One is on, the last thing on the retail sales now, for the last 2-3 quarters we have seen a significant (+70%) YoY growth. So you know how big is the market here, where have we penetrated, and what kind of incremental volumes we are expecting in that market?

Jayant Acharya: So the retail side, we have been aggressively expanding our network to reach the last mile. So we have today a retail network which is about 4,700 in terms of footprints across 495 districts and out of this about 1,350 odd got added in this first half. The second thing which we have aggressively done is the influencer engagements. So the engagements with fabricators, contractors, masons, architects; taking them to the plant, explaining to them the advantage of the branded steel, and explaining to them the advantage of the process, all of this has helped in establishing the confidence in the buyer. The third thing which we have done is improving the brand building and the brand visibility. So we have rechristened our brand of TMT as JSW Neo Steel and we have come with a campaign you may have seen that on the TV as well and on the external hoardings as well. So that has got an emotional connect and has taken off well. We have also repositioned our JSW Colouron brand where we have seen some traction coming as more and more galvanized corrugated consumers are getting converted in the country to colour coated sheet buyers. So the branded products sales in retail segment, as a result of this, has gone up by 115%YoY and now constitutes 43% of our total retail portfolio. The other area which I told about is the TMT where we have penetrated the last mile and you have seen the growth in the TMT sales as well, it is up by195%YoY and even 33%QoQ. So here we expect the growth to come in as we go into the second half as well.

Saumil Mehta: So if I want to understand what would be our market share because annualized we sell about between 4-5 million tonnes in retail, so how big would the market be and what would be our market share, any number would be helpful here.

Jayant Acharya: It is difficult to define a basket for the trade sector across the country in terms of particular consumption, but if you were to look at the consumption for all India then in terms of the overall basket of domestic then we are close to 15% of the domestic consumption.

Saumil Mehta: Okay, but specific retail would be…

Jayant Acharya: Difficult to quantify, no such data point is available in an organized manner.

Moderator: Thank you. The next question is from the line of Ravi Shankar from Credit Suisse. Please go ahead.

Ravi Shankar: I wanted to know the revenue and capital acceptances values for this quarter.

Seshagiri Rao: Revenue acceptances are at $1,157mn.

Ravi Shankar: And capital?

Seshagiri Rao: Capital acceptances are at $441mn on consolidated basis.

Ravi Shankar: And while the inventory has increased for the system as a whole for JSW have we seen some working capital release given…?

Seshagiri Rao: Yes, quarter-on-quarter we have reduced our inventory up to 20,000 tonnes.

Ravi Shankar: And would it be possible to quantify the impact of these blast furnace shutdowns in both the plants for the next quarter in terms of production?

Seshagiri Rao: It will be difficult to do that, only thing which I can say is that we will be able to achieve our volume guidance for the full year, which we have given after taking into account these shutdowns.

Moderator: Thank you. The next question is from the line of Abhisar Jain from Centrum Broking. Please go ahead.

Abhisar Jain: My question is on the volume front as we now build up the expansion which will be complete and we will be up with the new capacity in Q4, what is going to be our strategy because this is a big additional amount of capacity that we will be having and how do you see this capacity finding the market at this point of time where in the demand is still not recovered at either global or at a domestic level. What have we thought on that from Q4 onwards?

Jayant Acharya: TMT is a substantial part of this capacity addition, the balance additional quantity would come in hot rolled coils. In TMT, we have one mill coming up in Dolvi which basically would cater to the Maharashtra or let us say the Western India, Gujarat kind of markets. We do not have any primary producers in the State of Maharashtra or in the Western region per se. So therefore it is market where we expect that we would be able to penetrate better on the back of better quality, on the back of the brand which we have built up now for Neo TMT bar and we also expect that the investment cycle would be better in the next year, on ground activity would improve. Therefore the general demand for TMT in construction network would go up. As far as hot rolled is concerned, I think the increase would be absorbed by mostly the value-added products where the capacities and sales are still moving up which is mostly on the cold rolled and galvanized side in Vijayanagar. Part quantity would go into the market in terms of the country as a whole in the hot rolled space.

Abhisar Jain: And sir this TMT that you are saying for the Maharashtra and Gujarat market what would be the size of this capacity that we are looking to place there?

Jayant Acharya: Maharashtra typically the secondary sector has a capacity of about 3.5-4 million tonnes if I recall and currently operating about 50 to 60% level. So that secondary sales which is about 2-2.5 million odd tonnes is an area where probably we can replace some part of it through much better quality, much better servicing because we are in the State of Maharashtra itself and the brand pull which is now being created. In Gujarat I do not off hand remember the market size. But our primary target focus would be Maharashtra and to some extent in Gujarat. We expect may be 60% to start with of our volume to focus on the Maharashtra market.

Seshagiri Rao: There is one more advantage which we have if we sell in Maharashtra, we have the VAT benefit even for the expansion project.

Abhisar Jain: To just sum it up, basically we are looking for most of this additional capacity to be able to sell in domestic markets, so even as an export percentage share from whatever you have guided for FY16 we can expect it to go down materially from FY17 onwards, also, right?

Jayant Acharya: The export for this year we have guided for 15%-16% and as you see now for the half year it is about 11% to 12% and for the second half it would be in a similar kind of range. Going into the next year we will recalibrate our exports and give you guidance sometime at the beginning of the year.

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

Kamlesh Bagmar: Just one question on the DMF part, like we have been talking to NMDC, so they were saying that even from the prior quarter like it is effective from 1st of January they are saying that they would raise the liability on the buyer as well to collect that from the start of January. So what is your take on that that part sir?

Seshagiri Rao: There are contrary views, mining companies are saying steel industry has to pay, steel industry saying mining industry has to pay. But as far as the spirit of the DMF is that whoever is the lessee he has to pay. So lessee's liability is to pay the DMF. So various state government are asking a clarification on this issue to the central government, particularly the CEC, Central Empower Committee, so we are expecting a clarification from them, after that I think clarity will come on this.

Kamlesh Bagmar: But from now on would you be providing the royalty at 19.5% or you are taking at 15% only?

Seshagiri Rao: No royalty is really 15% only. However, NMDC, at the time of selling, is writing in its invoices that if DMF is payable then it is an additional obligation on us whereas other private mining companies outside Karnataka are not doing so.

Kamlesh Bagmar: And sir lastly on this Amba River Coke, this quarter we have done roughly around 83 crores of EBITDA, so which is a significant amount, so even if we take 100% realization on sinter, pallet and coke oven capacity so the EBITDA per tonne comes at roughly at around ₹680 odd per tonne, even the miners are not earning that much of money. So what is the driver for this margin in Amba River Coke?

Seshagiri Rao: You should not look at EBITDA; you have to look at PAT because they have also raised a loan for implementing the project, so they have to pay interest and depreciation. So after that if you take this into account, it is only return-on-equity which we are leaving it there.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor over to Mr. Ritesh Shah for closing comments.

Ritesh Shah: Thanks everyone for joining in the call and Pritesh and team thanks for letting us host this conference call.

Moderator: Thank you. On behalf of Investec Capital Services that concludes this conference. Thank you for joining us and you may now disconnect your lines.