"JSW Steel Limited – 3QFY16 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. Goutam Chakraborty – Research Analyst, Emkay Global Financial Services**

Moderator: Ladies and gentlemen, welcome to the Q3FY16 Earnings Call of JSW Steel hosted by Emkay Global Financial Services. 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. If 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. Goutam Chakraborty - Research Analyst of Emkay Global. Thank you and over to you, sir.

Goutam Chakraborty: Good evening everyone. On behalf of Emkay Global I welcome you all to today's discussion. We thank the JSW Steel management for giving us the opportunity to host this call. We have with us today Mr. Seshagiri Rao - Joint Managing Director and Group CFO; Dr. Vinod Nowal - Deputy Managing Director; Mr. Jayant Acharya - Director, Commercial and Marketing and the senior management of JSW Steel. I would like to now hand over the floor to Mr. Pritesh Vinay - Vice President, Capital Markets and Group Investor Relations. Over to you Pritesh.

Pritesh Vinay: Thank you very much, Goutam. On behalf of JSW Steel I extend a very warm welcome to all the participants who have dialed-in to listen to our 3QFY16 Earnings Call. I am sure you have gone through the results, the Press Release and the Presentation which are already uploaded on the website. So, we will keep the usual format. We will start with a few minutes of opening remarks by Mr. Rao and then we can jump-in straight to the Q&A and make it efficient for everybody. So without much ado, I would like to hand the floor over to Mr. Rao.

Seshagiri Rao: Good evening to everybody. Steel industry globally is facing very strong headwinds and China is the major epicenter in this problem. You must have seen that Apparent Steel demand in China, for the calendar year 2015, has fallen by 5.4% which will translate to about 39 million tonnes. The demand has fallen by 39 million tonnes but their production moderated only to the extent of 19 million tonnes at crude steel level. So whatever surplus is there, they are pushing into the export market which is reflected in exports being higher by 20% as against 94 million tonnes in 2014. The Chinese steel exports went up to 112 million tonnes in 2015. This is creating havoc in the international steel industry including India. But the one positive factor is that

Indian steel demand grew in the first nine months of the current financial year by 4.4%, which is quite positive. At the same time what is unfortunate is that the production growth was only 0.9%. That means the incremental demand growth, which is coming in, is being met by higher imports rather than optimum capacity utilization by the domestic industry despite the fact that it is quite competitive to face the competition. The imports are coming in at dumping prices and it is causing a huge amount of distress even in the Indian steel market.

We should see JSW Steel results in this context. As we had guided that in 3Q we will take shut downs of three Blast Furnaces: one at Vijayanagar, one at Dolvi, and one at Salem, we took those shut downs in 3Q and due to this our 3Q volumes are lower - at 2.7 million tonne in terms of crude steel production and 2.55 million tonnes in terms of steel sales. If we exclude the capacity attributable to the shutdown, then the balance capacity has operated at 98% utilization in this quarter.

Then in the case of sales of 2.55 million tonnes also there are –3-4 highlights which I would like to bring to your attention. Our retail sales, where we have been emphasizing, grew by 82%Y0Y. Our domestic sales volume in the current quarter grew by 8%YoY and for the nine months it grew by 19%YoY. As the global economy is not doing well, we have moderated our exports to 12% of sales in this quarter as compared to 29% in the corresponding quarter of last year. We also focused on our value added product mix which grew to 36% of sales as against 35% in the corresponding quarter of last year. As there is some pick-up, which we are seeing, in the construction/real estate sides the TMT sales grew by 107%YoY in the quarter. What is notable is that our inventories have marginally come down compared to the levels at 30th September, 2015.

Our gross sales stood at ₹8,076 crores, our net sales is at ₹7,207 crores. Our EBITDA is at ₹878 crores, the EBITDA margin is only at 12.1% as against 18.4% in the corresponding quarter of last year, this translates in to an EBITDA of ₹3,443 per tonne of steel sold. This is in spite of NSR falling by 24%YoY and the cost coming down by 17.5%YoY during the quarter. The cost has not come down in the same proportion as that of NSR.

Then one more important aspect to look at our EBITDA is that there is shut down related expenditure. There are fixed costs which cannot be debited anywhere else excepting profit or loss account plus the inventory losses , both put together aggregated to ₹300 crores during the quarter. This ₹300 crores translates to ₹1,176 per tonne. So this EBITDA of ₹3,443 per tonne would have been higher by ₹1176 per tonne if these costs relating to shut down and inventory losses were not there. So the underlying EBITDA would have been close to ₹4,600 per tonne as against ₹4,900 per tonne in 2QFY16. So, this EBITDA of ₹878 crores has to be seen in the context of ₹300 crores debit which has come to the profit and loss account plus loss of production due to shut down. Almost close to 6 lakh tonnes of steel could have been produced and sold if the shutdown were not there. If these two things are taken into account this performance at EBITDA level is quite good.

In addition to this, we have taken a view on our investments in the overseas subsidiaries like the US Plate and Pipe Mill, Chile iron ore mines and US Coal Mines. We have taken into account the current macro-economic conditions and the sharp correction in the commodity prices, the bearish outlook for the commodities in the foreseeable future, the weak demand and also the business plans of the respective locations. We took all that into account and arrived at value-in-use which was also validated by external experts. The differential between the carrying value and the value-in-use amounts to ₹5,596.83 crores which we have provided as diminution in value of investments and loans and advances during the quarter. After considering the deferred tax on this exceptional item plus other losses the net loss on standalone company was of ₹4,142 crores. I would like to highlight here that if these exceptional diminution in value of investment was not being provided then the reported net loss would have been ₹181 crores for the standalone company.

Coming to our subsidiary performance, we have produced 3,30,000 tonne and registered sale of 3,40,000 tonne at JSW Steel Coated Products and its EBITDA is at ₹38 crores. We have an EBITDA of ₹32 crores in Amba River Coke. US Plate and Pipe Mill operated at a very low capacity utilization - plate mill at 20% and pipe mill at 10% - and the EBITDA loss was $4.89 million. Chile and US Coal Mines were under maintenance, so there is also a negative EBITDA there.

With that, our consolidated EBITDA is ₹892 crores for the quarter. The impairment amount, you will find that is substantially lower than what we have provided in the standalone company, at ₹2,122 crores in the consolidated results. So, as against ₹5,596 crores in the standalone company, consolidated number is ₹2,122 crores - showing a difference of ₹3,474 crores. This ₹3,474 crores represent the accumulated losses which have been booked since inception in the consolidated results and that is why the difference appears between standalone and consolidated results.

The net loss on the consolidated basis is ₹923.34 crores, and if we did not take the impairment amount then the operating consolidated loss would have been ₹438 crores for the quarter. The consolidated net debt of the company is ₹39,483 crores after netting out cash balances of ₹1,161 crores. Net debt to equity is 1.83x, our debt to EBITDA is 6.66x. Acceptances on the revenue account is $1,163 million and on the capital account is $459 million.

There is a delay of one and half months to two months in the re-commissioning of our Blast Furnaces, this was supposed to complete in the month of December but these are not new Greenfield or a Brown field plant, only existing plants are getting refurbished, remodeled and capacity enhancement is being done. So, it is taking little longer time than what we had anticipated. So, there is a delay of one and half months to two months. We will be commissioning all the three furnaces in the month of February; the enhanced capacity will be available from March onwards. Because of this delay of one and half months - two months, we will be short by around 5% to 6% against the FY16 guidance for crude steel production and saleable steel sales of 13.4mn tonnes and 12.9mn tonnes, respectively. . But our capacity will be higher by 25% in the month of March once these units are commissioned. The only other thing which we are looking to going forward is that the government takes effective steps to curtail the imports. We are hoping that the government of India will take appropriate steps in the near future like minimum import price. We are very hopeful that they will do that. With that I think imports may get moderated.

The last point I would like to highlight on FDT (Forest Development Tax). The FDT was imposed by Karnataka government in the year 2008. They started collecting this FDT at the rate of 12% even before commencement of e-auctions of iron ore (the e-auctions were started in 2011 as per the directive of the Hon'ble Supreme Court). Prior to that FDT was paid by the mining companies and NMDC and we use to buy iron ore from them. When we were buying from private mining companies, they used to give a price which was inclusive of FDT. Therefore, prior to e-auctions, there was no issue on account of FDT in case where iron ore was bought by JSW Steel from the private mining companies.

As regards to NMDC, NMDC always said, the FDT is to the account of the buyer. So, we have been paying part of the 12% to the NMDC and for balance amount we used to give partly guarantee and partly treating it as a contingent liability. This is a story up to 2011.

After 2011, as per the Supreme Court directive they started collecting this 12% from the buyers. So, we have been paying this 12% in the e-auctions. Now, the judgment has come from the High Court. There are two-three important elements in the judgment. The point one is that the State Government is empowered to levy the FDT but only on the companies or bodies which are under the control of the State Government that means if there is a company like MML (Mysore Minerals Limited) which is a State Government of Karnataka undertaking and if any iron ore is sold by them then FDT is payable by MML, so they have to collect from the buyer. But if it is non- State Government controlled entity then FDT cannot be levied by the State Government. Therefore, whatever iron ore is being bought either from NMDC or from private mining companies, no FDT can be leviable on this.

Second point is that the maximum amount of FDT that can be levied is only 8% whereas they started levying 12% by issuing a notification without amending the Act. So MML cannot collect this additional 4% on whatever we have bought from

MML. The third point of the judgment is that this amount has to be refunded within three months from 3rd December which is the date of the judgment. That means, by 3rd March, they have to refund whatever money they have collected. Both the parties have a right to go to the Supreme Court to appeal against this. In this context, there is a potential cash flow benefit of ₹1,520.93 crores for JSW Steel (up to 31st December net of 8% payable to MML). If State Government accepts the judgment of High Court and they do not get any stay from the Supreme Court then this amount has to be refunded by the State. As far as Profit and loss account is concerned, please note that we changed our policy and started debiting the FDT to P&L account instead of showing in the contingent liability from 2013 onwards because amounts were becoming bigger and bigger. So, the amount that has been debited to P&L in earlier periods but not written back in the current quarterly results is about ₹825 crores. We have not considered this impact in the P&L as we are awaiting certain clarifications from the Monitoring Committee. The Monitoring Committee, which is the Supreme Court appointed committee, is awaiting clarification from the Central Empowered Committee (CEC) which is working under the Supreme Court guidance. They are conducting auctions based on Supreme Court directive; they are looking for some clarification from CEC. So, pending that clarification to them, even after 3rd December, 2015, they continue to charge FDT on the sale of iron ore in the e-auction. As the clarification is awaited, we do not want to consider this FDT write-back in our quarterly results. That is why we did not take it into account.

With that, only last point I would like to add is that in 4Q volumes will be better than the 3Q because we will be commissioning our three Blast Furnaces and the production and sales will look better for the 4Q.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Indrajeet Agarwal from Goldman Sachs.

Indrajeet Agarwal: I have two quick questions - after the write downs what is the goodwill at the consol level and how had the book values or the shareholders' funds moved for standalone and consol level, that is my first question.

Seshagiri Rao: And what is the second question?

Indrajeet Agarwal: And second question sir, if I look at the EBITDA breakdown even after considering the decrease in EBITDA and standalone Coated, US and Chile the others EBITDA has fallen by ₹75 crores so what has contributed to this, sir?

Seshagiri Rao: Yes, after the write down of our impairment in the consolidated books the carry forward goodwill will be $130 million. On second question which you asked about EBITDA breakdown which has come down by ₹75 crores, it is not just arithmetical addition of ARCL and coated products. In addition to that we have to take consolidation impact also. In addition to this, the coke which is produced by ARCL and which is generally used by JSW Steel in its Blast Furnace at Dolvi but in the last quarter the Blast Furnace did not work due to planned shutdown. Therefore, the EBITDA recorded by ARCL on this coke has to be removed in the consolidation as it is still lying in the stock. This also reduced EBITDA on the consolidation. So, the arithmetical addition will not give the consolidated number of EBITDA. Therefore you will find the difference of only ₹13 - 14 crores between standalone and consolidated.

Indrajeet Agarwal: Okay. And on the shareholder fund amount on the book value what is the amount at the end of Q3?

Seshagiri Rao: The impact of this is in different form – we had invested in the form of equity, in the form of preference shares, and in the form of loans and advances. So what we have done as I explained that we looked at the total value of all the investments including loans versus the value-in-use of the same and the difference has been provided for.

Indrajeet Agarwal: No, sir, actually I am looking at your stated shareholders fund in the consol and standalone entity how it has moved like we have rupees

Seshagiri Rao: You mean networth, how much is that?

Indrajeet Agarwal: Yes, right.

Seshagiri Rao: Yes, the standalone net worth is ₹21,502 crores and the net worth number for our consolidated entity is ₹21,570 crores at the end of December 2015.

Moderator: Thank you very much. We will take the next question from the line of Saumil Mehta from IDFC Securities.

Saumil Mehta: Two quick questions, one is if I look at the sequential decline for the steel realization this has come very sharp at about close to ₹2,400 a tonne. So has there been a grade slippage as you know have the lower grade being more sold and if not what would be the current prices on a like to like basis vis-à-vis the Q3 average?

Jayant Acharya: So, if you look at the YoY drop in NSR it has been about 24% but if you look at the international drop of prices by and large it has been around 40% during the same period. So vis-à-vis international levels our drop is 24 odd percent. So, the other reflection in terms of the NSR is because of the shut downs in different units in this quarter, therefore some of the impact has come in at Salem and Dolvi and Vijayanagar. So, the weighted average is looking a little different. That is why you are getting a different picture, it is not ₹2,400 tonne, it would be somewhere in the vicinity of ₹2,000-2,100 per tonne.

Saumil Mehta: Okay, Jayant. And what would be the spot price vis-à-vis the Q3 average on a very general basis would be I mean are they down by about ₹1,000 or probably they are flat you know…

Jayant Acharya: No, I would not like to compare with spot but let us put it this way that the domestic industry has taken a price cut between November and December in response to the international price drops which have happened from October onwards. Therefore, the deeper cuts were visible in November-December. By and large, I think r that the prices have bottomed out and we have seen a slight uptick in the Chinese offers between $10 - 20 per tonne although the Russians have not really changed much. They have kept their prices more or less at the same levels. We need to see how that goes but since most of the people are bleeding and operating at losses, the likelihood of prices dropping from here on is unlikely.

Saumil Mehta: Sure. Sir, my second question is just to clarify on the FDT, the amount which can possible be write back or is about 825 crores if the judgment is in the favor that probably they will have to refund the amount so there can be a onetime 825 crores cash inflow.

Seshagiri Rao: No, cash inflow impact is ₹1,520 crores, P&L impact is ₹825 crores because prior to 2013 we were not debiting it to P&L and were showing it as contingent liability.

Saumil Mehta: Okay. So the maximum cash inflow which can come is about ₹1,520 crores.

Seshagiri Rao: Correct.

Saumil Mehta: Sure. And sir, my last question is with respect to volumes even I take the cut in guidance which you have given about 5% to 6% if I take 6% that implies Q4 volume should be higher by about 25% on a Q-on-Q basis so despite Jan not being for the extent we would have desired so are we confident that there would be significant volume growth in Feb and March as well?

Seshagiri Rao: We will start commissioning in February; it does not mean that the incremental capacity is only available in March. So, it will partly be in February also. So, we have considered that before reducing the guidance by 5% to 6%. We are reasonably confident about this.

Moderator: Thank you very much. We will take the next question from the line of Nitesh Jain from Axis Capital.

Nitesh Jain: Sir, can you tell us like this provisional safeguard duty will be over in next two months as 6 months period will be over. So now what is the procedure will the industry have to file petition again or they will automatically renew it, number one. And number two if you can give us some update on the safeguard petition on some of the other products like Wire rod, Cold rolled what is the status, yes this is the question.

Jayant Acharya: So, on the Hot rolled coil safeguard petition, there is 200 days which is given for them to conclude the final things which ends by March end. So, I think before that we are expecting the final determination of duty would happen. So, they have done the public hearing, they have taken the inputs from the end users, they have taken the inputs and clarification from the applicants and the DG safeguard is in the process of coming to the final determination. So, that process is on. With regard to the other products we have filed our safeguard petition for Wire rods and we have filed our safeguard petition for HR plates and sheets. The verification process for the plates and sheets in the various plants have happened and the public hearing for HR plates and sheets is expected soon early next month. For the Wire rod the process is just beginning. The safeguard department is running a little short in terms of manpower so I think that is one of the areas which is restricting their speed of movement.

Nitesh Jain: Sure. So on the safeguard on the HR so DG safeguard will be the ultimate authority or will the approval from Commerce Ministry or Finance Ministry will also be required for the final duty?

Jayant Acharya: Yes, so he will follow the process which is required as per law but DG safeguard is the final determining authority for calculating the safeguard duty.

Nitesh Jain: Sure. And sir, secondly on this minimum import price thing anything that the steel industry has done from their side like submitting some data or providing some input to the government or the government Steel Ministry only working on this like?

Jayant Acharya: No the steel industry on the ISA (the Indian Steel Association) platform has given the pain points in the steel industry today. So, the data points with respect to competitiveness of the Indian steel industry - the fact that we are probably the second lowest in terms of variable cost in the world; in terms of published data we have given them the fact that the Chinese are operating $80-$100 per tonne below the marginal cost. We have given them inputs that Japan and Korea domestic prices are probably $200 per tonne more than the FOB price at which they are exporting. So, they are actually subsidizing their exports and are able to control their domestic prices through trade barriers. We have given them inputs that the worldwide trade actions are happening. Whether it is US or it is any other country across the world, everybody is raising their barriers. So, we need to act and we need to act quickly if we want to see that the predatory pricing, which is happening in terms of dumping into India, is stopped.

Nitesh Jain: Sure. And sir, lastly if theoretically if they decide to impose the final duty on the HR then this will be for how many years is there any set timeline like for next two years it will be there or?

Jayant Acharya: It can be continued up to four years, there is a year by year review which happens and they can extend it up to four years.

Moderator: Thank you. We will take the next question from the line of Sanjay Jain from Motilal Oswal.

Sanjay Jain: I have two questions. One is volume outlook for FY17 since we will be ready with expanded capacity of 18 million tonne so what kind of volume throughput you are expecting number one. The second question is on power and fuel cost that is a significantly lower in this quarter even on per tonne basis so I was I mean just wondering like have we taken certain steps which has helped us in reducing power and fuel cost or like it is just some one-offs in this and we are going to see that bouncing back in the next quarter?

Seshagiri Rao: As regards to volume guidance for FY17, I think we will be able to give it accurately in the month of May when we meet you for our annual results. The only point which we can put right now is that we will have 18 million installed capacities by end of February. So, 18 million tonnes capacity will be available with no increase in the overall gross debt. So, with that I think there is a big upside which can come-in on account of volume with no substantial increase in the interest.

As regards to the power and fuel costs, the thermal coal prices have come down so the overall cost is coming down. The natural gas prices also came down and volumes were also lower. These three put together led to lower power and fuel cost.

Sanjay Jain: Right, okay. So coming back to first question on volumes I understand that you do not want to give a volume guidance at this point of time what I want to understand from you is that we have the capability to production 18 million tonnes or will there be certain missing pieces which will not allow us to produce to 18 million tonnes will we really have the capability to what will be our capability to produce at the market supports, can we produce 18 million tonne or like the maximum that we could produce may be let us say 16 million tonne so that is saleable steel so not the crude steel basically.

Dr. Vinod Nowal: From February-mid, we will be capable to produce 18 million and we do not have any shutdown plans in the next year. As of now, we do not see any hurdles for that and we are hopeful that market will also support. So, this quantity is going to be available.

Seshagiri Rao: If you see, we have a track record of operating at around 85%-90% of our installed capacities. So, that may be a safe way of looking at it, but we will come and refine this when we come with our annual results in May.

Sanjay Jain: Right. So this saleable steel we should take I mean in terms of the capability I am not saying that you will produce or not produce. In terms of the capability we should take 85% to 90% of 18 million tonnes, is that what you mean sir?

Seshagiri Rao: Yes, correct.

Moderator: Thank you. We will take the next question from the line of Calvin Fernandes from Deutsche Bank.

Calvin Fernandes: Is there any plan to reduce leverage in this environment for example may be an equity raise or something like that? And my second question is on your US dollar bonds, is there any plan to buyback these bonds given that they are available at a significant discount?

Seshagiri Rao: As far as leverage concerned, the way I explained in my opening remarks that the overall gross debt has not gone up materially in-spite of 4 million tonne commissioning. Whatever ratios that have gone little adverse, relative to what we intend to have, is majorly due to fall in the EBITDA for various reasons in this year. Because of the levers that we explained either in terms of volume or in terms of value added mix or in terms of cost of production coming down, you will see that we will be able to improve our operational performance and profitability using these levers in the next year. So, with that we are reasonably confident that we will be able to reduce our leverage relative to what it is today. We have no plans to raise equity.

On second question about dollar bond, we have not taken any call as far as the dollar bond is concerned but we continue to look at this option.

Moderator: Thank you. We will take the next question from the line of Bhavin Chheda from Enam Holdings.

Bhavin Chheda: Sir, few questions just one the FDTs you said in the current quarter the FDT was accounted and paid or not accounted what was the status in the Q3?

Seshagiri Rao: In 3Q, we have debited it to P&L. We have been paying and we are debiting it to profit and loss as it was the practice earlier.

Bhavin Chheda: Even after that December for ruling the e-auction mechanism continues to levy FDT?

Seshagiri Rao: Yes, that is the reason why we wanted a confirmation from the Monitoring Committee before we act upon the court orders. The monitoring committee, in the e-auction done subsequent to 3rd December, continues to levy and collect the FDT.

Bhavin Chheda: They continue to levy and collect, okay. So as of now the accounting is that has been routed via income statement and the number what you have given is till the 31st December?

Seshagiri Rao: Yes, cumulative up to December.

Bhavin Chheda: Cumulative up to December, okay. Sir, regarding if you can give us the iron ore and the coal landed cost in the quarter the blended number would be fine?

Jayant Acharya: Yes, so for the coal cost last time we had given a guidance of about $110 per tonne on CFR basis as against that we have been able to achieve between $100 - $105 per tonne on CFR basis. Going forward in to the next quarter we expect another $5 drop.

Bhavin Chheda: Another $5 drop, okay. And on the iron ore side?

Jayant Acharya: Iron ore side as you know we are not giving consolidated number because the plant-wise t the mix is different.

Bhavin Chheda: Okay. But the iron ore would have surely be down this quarter as compared to the last quarter?

Jayant Acharya: Yes.

Bhavin Chheda: Okay. And there was some iron ore imported inventory of high cost so now on the current run rate basis we should be on the new iron ore costing of the lower or there is a high cost inventory still there?

Jayant Acharya: There is some quantity which is getting liquidated in this quarter. It is almost 3 lakhs tonnes.

Bhavin Chheda: And Mr. Rao said, there has been decline in inventory from September 30, 2011 so what would be the absolute inventory as on December 31?

Seshagiri Rao: 1,103 tonnes.

Bhavin Chheda: So this is a finished product inventory?

Seshagiri Rao: No, it is all.

Bhavin Chheda: Raw material and finished product?

Seshagiri Rao: Raw material in the sense this is including slabs, including billets.

Bhavin Chheda: Okay. And just on the earlier question the 18 million tonne is our crude steel capacity or a hot metal capacity?

Seshagiri Rao: Crude steel.

Bhavin Chheda: And on the finished steel basis what that number would be on the capability basis?

Seshagiri Rao: 90% (of crude steel capacity).

Bhavin Chheda: Okay. So I am saying that we would not need to sell any slabs right if there is a demand you can convert this into 90% and sell it is in a finished steel form there would be no semi or slabs which we sold. So we can either do billets, HRC and sell it in finished form, right?

Seshagiri Rao: Yes, we have the rolling capacity so we will be able to convert everything into finished steel in the mills.

Bhavin Chheda: Okay. And my last question on just to confirm on the standalone net worth you said 21,502 and consolidated 21,570 crores right?

Seshagiri Rao: Yes.

Moderator: Thank you very much. We will take the next question from the line of Ritesh Shah from Investec.

Ritesh Shah: Sir, if you could please provide some color on the debt covenant side, I remember last time you highlighted that on standalone it was net debt-to-EBITDA was 3.75x and gearing is 1.75x and we have deferred the covenant checks to March so how does it look like on one of your slides we already given the ratios so how do the things stand right now?

Seshagiri Rao: Yes, we have approached the lenders expecting that we will not be able to comply with the covenants whatever we have sought earlier. So we are now getting the approvals, before March we will be able to get the clearances for the relaxation, the way we have got for 30th September.

Ritesh Shah: Okay. So basically the next check will be only in September that is what you are saying?

Seshagiri Rao: Yes, it is half yearly. So, last time this was on 30 September. We got the approval for not complying on 30th September. Similarly, we will be getting for 31st March. So, when we are getting approval for 31st March, we are also seeking some more time to come back to the levels that we are seeking the approval from the lenders.

Ritesh Shah: Okay. Sir, secondly on CAPEX how much have we incurred so far and do the numbers change against the ones that we have guided earlier for?

Seshagiri Rao: The total cumulative CAPEX incurred is ₹3,908 crores for the nine months.

Ritesh Shah: Okay. Full year it remains the same basically 2016-2017 what we had guided for.

Seshagiri Rao: We will come back for 2016-2017. For 2015 – 2016, we have given a guidance of ₹5,200 crores and we are well within that.

Ritesh Shah: Okay. Sir, last question what can one expect on the cost side incrementally going for that so basically Mr. Jayant said that cooking coal prices would go down by another $5. If you could provide some more color say on iron ore or any specific measures that we are taking to see more leaner cost let us say in the forthcoming quarters?

Seshagiri Rao: No, the opening stock of imported iron ore, which would be available at Vijayanagar, will get consumed in 4Q. So, after that when we will use only domestic ore at Vijayanagar then the cost of iron ore is likely to come down. In addition to this, Karnataka has already put 14 Category C Mines for auction and they are also in the final stages of giving clearance for enhancement of existing iron ore production. With that we expect more iron ore availability within Karnataka. So, that should further reduce our cost of iron ore in Vijayanagar.

Then at Dolvi, the proportion of DRI which used to be 45% in the overall metallics prior to the shutdown, will come down to 33% and hot metal proportion will go to 67%. Once we increase the hot metal capacity after Blast Furnace re-commissioning. The cost of hot metal is lower than the DRI. So, that will reduce my cost at Dolvi. Then overall fixed cost on the higher volume will also come down.

In addition to that several initiatives we are taking in terms of efficiency, in power consumption, efficiency in terms of yield. We continue to make efforts to reduce the cost.

Ritesh Shah: Okay. And anything on the product mix side which will help on the realizations any significant change in product mix that one can expect over next two quarters - three quarters?

Jayant Acharya: On the product mix side, if you see the production is going to be enhanced mainly in the TMT bars which basically would come from the new mill at Dolvi as well as the additional mill in Vijayanagar. We would also see some hot rolled improvement from Dolvi by virtue of this capacity expansion. The Vijayanagar expansion will also have some increase in the hot rolled space. In the hot rolled side, we would be converting part of this into the value added side which is cold rolled and galvanized, etc.

But in the value added space, you would have seen our analyst presentation document which gives journey of grade approvals. So, in that slide what it means is that we have by and large got all these components approved. And when we have mentioned let us say Hood 270F, what it means is that the highest grade available in that category. So, all the approvals for 270C, 270D, 270E are completed. So, if you see the journey of approvals for the automotive sector, I think we are progressing quite well. Even the ones with yellow background, which you see from the engine and transmission side at the Salem products, are also in the auto space and doing quite well. So, I think we are getting well-prepared to meet the value-added products demand in the cold rolled space. In addition to that we have embarked on the electrical steel side; we have just started the trial production. So, we would be getting into that in a bigger way in the next year. So, that would be another product which would be a value added one.

Moderator: Thank you very much. We will take the next question from the line of Sumangal Nevetia from Macquarie.

Sumangal Nevetia: A couple of questions. Sir, first there is a significant margin decline in the coated products from close to 2,700 per tonne to 1,100 per tonne so any specific reason or it is just the spread of coated products reduced this quarter?

Seshagiri Rao: So, one is that the international exposure that something which we have been trying to reduce and nevertheless the pressure on the prices is reflecting on the margins that is one reason. Second is I would say the fact that the competition on the coated side between the domestic and the imported sides is bringing the margins down.

Sumangal Nevetia: Okay. So this level do we expect any improvement from this level if other things remains same?

Jayant Acharya: Yes, so you know what is going to happen is that the hot rolled prices to the extent which has let us say corrected for the coated has not fully flown through in the last quarter because there is always some inventory which they would be carrying which would be either in transit or in their socks. So I think, we would see better transmission of the hot rolled prices, which have actually corrected in December, in the current quarter. So that would give some benefit to them.

Sumangal Nevetia: Understood. Sir, secondly, in December government mandated BIS Certification for various products. If you can just share what is our position with regards to the certification and what is the potential of this non-tariff barrier on curbing imports according to you?

Jayant Acharya: So, as per the BIS license requirement from 15th March all the products which are manufactured and sold by the domestic industry and the imports will have to be BIS compliant. So what it would mean is that anybody who does not have a BIS license would not be able to market that product in the country. So that would naturally to some extent I would say that create some barriers in some form for imports coming into the country till they have the BIS license in place.

Sumangal Nevetia: Sir what is the time frame to get the certification. Is three months enough or it takes longer generally?

Jayant Acharya: Yes, so it depends on the procedure which the importer follows. If they are able to follow all the process laid down by the Government of India to get the BIS license then it should happen but at times there are some delays people there are some visits to the mills so it may take a few more months' time. But three months to six months is what I would put would be the time frame.

Sumangal Nevetia: And all of our products are already BIS certified, that is right?

Jayant Acharya: Yes.

Moderator: Thank you very much. We will take the next question from the line of Ravi Shankar from Credit Suisse.

Ravi Shankar: I wanted to understand two things one for the 12% of auto volumes what is the incremental premium and that the commodity commands in the market over **say** base HRC and secondly, just wanted to know the revenue and capital acceptances once again I think I miss that portion out.

Seshagiri Rao: Revenue acceptances are $1.163 billion, capital acceptances are $459 million.

Jayant Acharya: The auto volume I would not like to give a number as to what the difference is because at any point of time it differs because some of the customers are moving on half year basis some on quarterly basis and the cold rolled market to the spot moves on a spot basis. So, there are too many factors and parameters playing around there. So, it may not be fair to compare that but there is reasonable difference. I would say between the auto space and the spot market the difference by and large may be in the vicinity of about 8% to 10%.

Moderator: Thank you very much. We will take the next question from the line of William Vanderpump from UBS Securities.

William Vanderpump: Hello, it is William from UBS. Just a follow-up on the pricing question, in the quarter just reported how much benefits as suppose did you see from retail, value-added products, change in mix on exports if you could quantify that. And then secondly, in terms of the EBITDA per tonne in Q4 you talked about the 300 crores at from some other shut downs through just straight back homes the historically low level of EBITDA per tonne Q3 another 1,200 and one more the other essential areas of improvements in Q4 I was looking in particular at some other expenses, thank you.

Seshagiri Rao: Yes, as far as EBITDA per tonne is concerned this is correct that there were some expenditure which were relating to shut down and also inventory losses, this amounts to ₹300 crores which will not be there in the next quarter.

William Vanderpump: So that should be about ₹1,200 a tonne sequential improvement?

Seshagiri Rao: Then what is next, anything else you would like to know on the EBITDA per tonne improvement?

William Vanderpump: Sir, you have answered the question on fuel and you have given your view on realization in the coming quarter. I imagine most of that sequential improvement would be through the other expenses they ticked-up a little bit in Q3 or anything else in that that I am missing?

Seshagiri Rao: No, I think you are correct, only other is that the volumes will be higher in Q4 therefore, fixed cost also will get distributed the higher tonnage. So, that is the benefit which will also be there in the Q4.

Jayant Acharya: Your other question regarding the, if I have understood it correctly, was the component of value added in exports versus domestic, right?

William Vanderpump: Yes, it is how much because it looked me you are saying broadly in line if not so a little bit more than the markets in Q3 and if you were already getting some benefit from these value-added measures I just wondered if there was a sort of like for like basis that was even more significant so, if you could just explain that next to me? Thank you.

Jayant Acharya: Yes, if you look at a year-on-year basis our domestic sale last year was about 2,164 thousand tonnes out of that approximately 600,000 tonnes was in the value added space and in the balance was in the exports. If you look at the current quarter the value-added volume in absolute terms is similar to what was there last year, it is marginally up.

William Vanderpump: Okay. So there would not be any year-on-year impact because of change in mix is what you are saying?

Seshagiri Rao: No, what we have said is that the value-added mix will be 37% on the higher volumes which will happen in Q4 and this is the guidance which we have given. So by end of this financial year, we will achieve value-added sales of 37% out of total volumes which could either be from exports value added or from domestic market. In this quarter we were at 36%. So, there is a possibility that it can go up slightly in the Q4.

Jayant Acharya: Yes. We are actually monitoring the export space on a regular basis as to how the value added space realizations are moving; especially keeping in mind the Chinese. So, that is the only one area where we may moderate if there is a requirement to moderate. Otherwise we should be between 36%-37% for the next quarter as well.

Moderator: Thank you. We will take the next question from the line of Ashish Gupta from GMO Venture.

Ashish Gupta: I have two questions. One is on the impairments so are we expecting any more impairments on the US sub or any other company?

Seshagiri Rao: As regards to investments and loans and advances in overseas subsidiaries, we have provided 100% of the difference between value-in-use calculation and the carrying value prior to the impairment. We provided 100% of the difference. Whether there will be any further impairments as regards to overseas investments is dependent on the change of the assumptions which we have taken such as future iron ore prices (as per consensus estimate of the analyst) or steel prices or the capacity utilization, we have assumed that these will improve starting from 2018. If any of these assumptions undergo a change, there could be either upside or downside, there could be a write back or there could be further impairments. So, we have to test it in future based on the assumptions that have been taken as of now.

Ashish Gupta: And how often do we test this because in the March 2015 Annual Report the auditors had mentioned that there is no impairment which has taken based on estimates so I mean how often do we value take these assumptions into account?

Seshagiri Rao: We are doing this yearly as far as this impairment is concerned but now we will test it every quarter.

Ashish Gupta: And sir, you mentioned on the FY15 and FY16 CAPEX any guidance on the FY17 CAPEX which you are looking at?

Seshagiri Rao: Last time we had given a guidance of total ₹9,000 crores out of that ₹5,200 crores was for FY16 and ₹3,800 crores for FY17. We will refine the FY17 number and we will come back to you in the month of May when we announce our annual results.

Moderator: Thank you. We will take the last question from the line of Ashish Kejariwal from Elara Capital.

Ashish Kejariwal: Sir because we have seen some changes or increase in steel prices from China so as of now what I believe is that our prices are at a discount to the landed price. So is there any possibility of increase in steel prices in February?

Jayant Acharya: So, I would put in this way that I think the prices in the international markets have bottomed out and as you rightly said that the Chinese have taken the step to try and increase some $10 to $20 per tonne as they are also bleeding quite badly. So, I think the bottom is here by and large and we do not see any downside further. Now in terms of the increase, I would say that I would be cautious on giving any guidance on the increase right now since the volume of imports is something which is having material impact. I think, we will have to see whether the volume of imports is moderated by any trade actions then only we will be able to give you any kind of feeler as to how the markets would move with respect to the prices. But I would say the bottom is achieved. So, by and large there would not be any change on the down side.

Ashish Kejariwal: Understood, thanks for this. Sir, why I am asking is our industry voluntarily not increasing prices in order to get more support from the government in terms of minimum support price so unless until minimum support price comes if any at least for the next one month or two months even if the market allows we may not go for any price hike.

Jayant Acharya: See, the price is market determined and it will basically depend on the supply demand equation. The imports today still continues be at a pace of around one million tonne every month. Given that the tepid kind of demand in the domestic market, there is an oversupply position vis-à-vis the current demand. So, this supply demand equation is something which will determine the prices. So, I think, we will watch that going forward. I would like to say that it looks like the bottom has been achieved but whether we will be able to increase and by how much we will be able to increase is something which is a matter of speculation. So, it is difficult to go into that path.

Ashish Kejariwal: Okay. And secondly, sir how is the spread now between HRC and CRC because we have already get a 20% safeguard duty on HRC but not on CRC so going forward do you think that value added producers or the guys who are having more of CRC they are at a disadvantageous position till the time safeguard duty on those products also get imposed?

Jayant Acharya: So, we have requested the government to impose the trade barriers whether the safeguard or anti-dumping or CVD across the product supply chain which means hot rolled, cold rolled and coated and also in the wire rods and bars. So we will have to cover the entire supply chain otherwise what we are noticing is that while we have put safeguard at hot rolled coils there are certain circumventions which these people are using. One of them is that instead of buying hot rolled coils they are going in for CR full hard. They are buying more of CRCA which again circumventing it or they are buying API grade which was basically exempted because API grade is supposed to be used only for oil and gas but it is being miss-utilized in the lower grades to be substituted for normal structural grade. So, that is a circumvention which is being done. These will have to be blocked that is why we have requested that the entire supply chain of the products has to be safeguarded or trade barriers have to be imposed. So, I think the government is looking into that.

Ashish Kejariwal: So sir, currently what is the spread between the two?

Jayant Acharya: So, this spread is a little skewed. That is what I was trying to explain. If you see the CR full hard is coming without the safeguard. If it is coming from China, it is coming only at a 12% duty whereas the hot roll from China will have to face a safeguard duty of 20% along with the normal duty. So, the difference is skewed. So, today it will not be right to compare this thing. Normally the gap is between $60-80 per tonne but today the gap is not reflective of that as it is getting squeezed because the CRC or CR full hard coming into the country without paying that safeguard duty.

Ashish Kejariwal: Sure, thanks for that. And sir, lastly a bookkeeping question what is the non-steel revenue which his included in top-line for the year?

Seshagiri Rao: Yes, it is ₹200 crores.

Ashish Kejariwal: So over a period of time I think it is on a declining path?

Seshagiri Rao: Yes.

Ashish Kejariwal: So do we have the number for nine months also sir?

Seshagiri Rao: ₹582 crores.

Moderator: Thank you. Ladies and gentlemen, due to time constraints that was the last question. I now hand the conference over to Mr. Goutam Chakraborty for closing comments.

Goutam Chakraborty: Yes, thanks again to all for joining us on the call and I will request Mr. Rao if you have any closing comments, sir.

Seshagiri Rao: Thank you very much. This Q3 Results, as I mentioned to you, appear to be below compared to our performance in the earlier quarter. This is majorly attributable to the shutdown of three Blast Furnaces and the impairments. If you look at Q4 on the future, the point which I would like to highlight is that with no increase in the gross debt the company is creating an addition capacity of 4 million tonnes and part of it will be available in the Q4. So going forward, I think things look better than the Q3. With that, I thank once again all of you. Thank you very much.

Moderator: Thank you. On behalf of Emkay Global Financial Services, that concludes this conference. Thank you for joining us and you may now disconnect your lines