"JSW Steel Limited – 4Q FY2017 Results Conference Call"

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Speakers: **Seshagiri Rao MVS, Jt. Managing Director & Group CFO**
Dr. Vinod Nowal, Dy. Managing Director
Jayant Acharya, Director – Commercial & Marketing
Rajeev Pai, Chief Financial Officer

Call host: **Dhruv Muchhal – Motilal Oswal Securities Limited**

Moderator: Ladies and gentlemen, good day and welcome to the 4QFY17 Results Conference Call of JSW Steel Limited hosted by Motilal Oswal Securities. 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 '*' followed by '0' on your touchtone phone. Please note, that this conference is being recorded. I now hand the conference over to Mr. Dhruv Muchhal from Motilal Oswal Securities. Thank you and over to you.

Dhruv Muchhal: Thanks Ali. Hello, everyone. On behalf of Motilal Oswal, I welcome you all to 4QFY17 earnings conference call of JSW Steel, and apologies for making you wait for so long. I would like to thank the management for giving us this opportunity to host the call. I will hand the line to Pritesh Vinay, Head of Investor Relations at JSW Group, to take the proceedings forward. Over to you Pritesh!

Pritesh Vinay: Thank you Dhruv. A very good evening to all the participants in our 4QFY17 results conference call. Apologies for the late start because of a cascading effect. We are represented today by the senior management team of JSW Steel. At this point we have with us Dr. Vinod Nowal, the Deputy Managing Director, Mr. Jayant Acharya, Director - Commercial & Marketing and Mr. Rajeev Pai, the CFO. Mr. Seshagiri Rao, the Joint Managing Director and Group CFO will join us in some time.

Jayant Acharya: Good afternoon, everybody. Sorry to have kept you waiting. I think you would have gone through the 4Q results and presentation, which has been already put on the web. FY17 has been a challenging year for us. We have seen the world steel demand growth moving at about 1% plus. The economic situations, while in most parts of the world towards the second half of the year has improved; however, steel intensity continues to be at quite low levels of about 0.3x odd. We have seen a very volatile price environment and availability issues with respect to raw material. Both iron ore and especially coking coal have been very volatile in the last year. This has been accentuated by a weak demand scenario in the Indian market. While the steel production grew by 8.5%YoY, the demand grew only by 2.6%YoY during the year.

I think that JSW has given an excellent result in this challenging environment. We have delivered 28%YoY growth in crude steel production to 4.1 million tonne for the quarter with the highest ever standalone sales of 3.96 million tonne – recording a 20%YoY in the quarter. JSW has achieved the highest ever revenue from operations at Rs.16, 952 Crores (up by 60% YoY) with 55%YoY growth in standalone operating EBITDA to Rs.3, 004 Crores. The net profit after tax at standalone level for the quarter grew by 173%YoY to Rs.1,003 crores.

At consolidated level, JSW's reported the highest ever revenue from operations at Rs.17,917 Crores with a 53%YoY growth. The operating EBITDA for the quarter was up by 64%YoY to Rs.3,165 Crores whereas the net profit after tax increased to Rs.1,009 for the quarter. The net debt-to-equity was at 1.85x and net debt-to-EBITDA improved to 3.41x.

Despite the multiple challenges, the year has also been very encouraging for us. At the start of the year, we commissioned new capacities and have been able to ramp up those capacities in a record time. We produced a 15.8 million tonnes crude steel production during the year, which is better than the guidance of 15.75 million tonnes. Though we missed the 15 million tonnes sales volume guidance for FY17, our full year sales volume still grew by 22%YoY to 14.77 million tonnes. During the year, we achieved the highest ever revenue from operations at Rs.56,913 Crores (up by 39%YoY), the highest ever operating EBITDA at Rs.11,543 Crores (up by 81%YoY) and the highest ever standalone net profit after tax at Rs.3,577 Crores.

On a consolidated basis for the full year, we reported the highest ever revenue from operations at Rs.60,536 Crores (up by 32% YoY), the highest ever operating EBITDA at Rs.12,174 Crores up by 90% YoY and highest ever net profit after tax of Rs.3,467 Crores.

There is one clarification, which We would like to give a clarification with respect to the consolidated net profit for both the quarter and the year. I request Rajeev to clarify that.

Rajeev Pai: Yes. So when you look at on consolidated results which is in a new format prescribed as per the Companies Act, you would see that the consolidated net profit after tax for the year is reported at Rs.3,467 Crores. But if we look at it in the way, it has always been presented in the previous periods, the net profit after adjusting minority interest is Rs.3,523 Crores for the year and Rs.1,014 Crores for the quarter. However, the consolidated net profit is being shown at Rs.3,467 Crores in the SEBI format result page.

So as Mr. Jayant had mentioned, the quarter and the year has been strong in terms of production, sales, EBITDA and PAT. The company has also reduced its net debt substantially. So the net debt is now Rs.41,549 Crores, compared to Rs.44,265 Crores at Dec 2016 end, with reduction of nearly Rs.2,700 Crores. As you will recollect, we had guided for net debt at a level of Rs.40,000 Crores plus Rs.2,800 crores for Ind-AS related adjustments by FY17 end or say around Rs.43,000 Crores. As against that the net debt is lower with strong cash flows and with this we are at much better level than our guidance to bring down net debt-to-EBITDA to 3.75x. As on March 31, 2017, the consolidated net debt-to-EBITDA is at 3.41x and the net debt-to-equity is at 1.85x. This has strengthened our balance sheet and has provided an appropriate base for our next phase of growth. Today, there are only few companies in the steel sector, which have such a strong leverage ratios and balance sheet.

Jayant Acharya: We should also note the challenging Indian market conditions under which these particular results have been achieved. In the last year, as we stated that while the production grew by 8.5% in India the crude steel production, the apparent finished steel consumption grew only by 2.6%. It has been subdued. The monthly steel imports still continued at 8 million tonne level on an annualized basis. To overcome these challenged, we used our export market presence to shift quickly to the export markets and thereby achieve our volume targets both for the quarter and for the year. We have also increased our value-added sales by about 17%YoY for the year. Our automotive sales were up by 11%YoY for both the year and the quarter while the Indian auto production was up by only 1%YoY for the quarter and 6%YoY for the year.

We have also seen areas of growth in the renewable energy sector. Especially in the solar sector, we have seen 86%YoY growth in the coated product space. We have specifically used galvalume for the solar applications, and we are the only company, which is able to give a 20-year warranty and develop a 600GSM galvanized coated product in India. In the appliances sector, we have again grown quite well at about 128% YoY in FY17. Approvals have been obtained from all the major players and our volume penetration in the sector is increasing. We have also increased our footprints in retail space across the country, we have added about 750 new retailers, our retail exclusive and non-exclusive outlets are at a level of about 7,900 now. JSW Neosteel (the TMT brand) sales increased 15%YoY to 1.06 million tonnes in FY17 with a 29%YoY increase in its end consumer price (ECP) based sales in spite of a weak scenario in terms of the infrastructure growth during the year.

Going forward, we see a decent demand growth coming in India. Our estimation is that the demand in India will grow by about 5% in FY18, primarily driven by infrastructure allocations, which have been given in the budget of Rs.4 trillion with the thrust on affordable housing and water and gas pipelines, etc. Especially in the water and gas pipeline area, we are seeing a demand of about 4 million tonne alone coming into play through 13,000 kilometers of oil and gas pipelines, which are being projected for developing the oil and gas grid in the country. This is a requirement for over two years and We expect that, out of this 4 million tonnes demand over the next two years, about 2 million tonnes will come in during the current year itself. In addition to this, about

300,000 tonnes to 400,000 tonnes demand would come in from the water pipeline projects in this year, and we also expect the renewable energy to have an extra demand of another 300,000 tonnes in the coated space alone. We are reasonably hopeful that a demand growth of 5% in FY18 is possible driven all the above coupled with the growth in the automobile sector and the other sectors.

The National Steel Policy, which has outlined a capacity of 300 million tonnes in the country, is something, which is a positive. This time there is a little bit more detail about the objectives, which have been laid out; it envisages to growth in per capital demand from 60 kg to 160 kg by 2030. They have also laid out that there will be a domestic preference in terms of steel purchase in all government projects, where a minimum value addition of 15% has been specified. The policy also lays down that raw material will be available to the steel companies at competitive rates and the focus should be on value-added and special grades and the target is to reduce imports to nil for such products over a period of time.

So, the National Steel Policy is also something, which would really push up the steel consumption in India and therefore there is a need for us to create more capacities. As we speak, the capacity in the country is about 128 odd million tonnes and given the fact that about 90% or 85% is the utilized capacity, the capacity available for production would be about 110 million tonnes. As against that we have already produced 97 million tonnes last year. So if the demand grows in the range of 6% to 7%, which is usually the case, the current capacities would not last beyond two years. Therefore, there is probably a need for us, as a steel industry, to put in more capacities going forward. We have outlined our capex plans for next 3-4 years keeping this in our mind. Just to touch upon the broad ones:

- We are augmenting the crude steel capacity at Dolvi Works to 10 million tonnes. The steelmaking capacity will be currently increased from 5 million tonnes to 10 million tonnes per year by adding a new blast furnace, steel melt shop, a 5MTPA hot strip mill, a 5.75MTPA sinter plant, a 4MTPA pellet plant and other balancing equipments. The estimated project cost is expected to be about Rs.15, 000 Crores and the project is expected to be completed by March 2020.
- We are also seeing that with respect to the end-use value-added products, the demand in the country is increasing and all our capacities currently are already fully utilized and we would take this opportunity to increase our downstream product capacities. We are, therefore, proposing that we will expand the CRM-1 complex at Vijayanagar Works. We would also modernize and enhance our downstream facilities at JSW Coated Products Limited.
    - At Vijayanagar, we are looking to enhance the cold rolling mill number one complex from 0.85 million tonnes to 1.8 million tonnes along with two continuous galvanizing lines of 0.45 million tonnes each and a new 1.2 million tonnes of pickling line. It will also be supported by a 0.8 million

tonne hot rolled skin pass line. The project is expected to cost about Rs.2,000 Crores and is expected to be completed by September 2019.

- We are taking up the modernization and capacity enhancement of our downstream works at Vasind and Tarapur Works. The modernization would enhance the capacity of the cold rolling by about 0.96 million tonne. It would replace the existing 6 reversing mills with 2 batch tandem cold rolling mills, one each at Vasind and Tarapur. The capacity of galvanizing would go up by 0.63 million tonne and the capacity in colour coating will marginally go up by about 80,000 tonnes. The project is expected to cost Rs.1,200 Crores and is expected to be completed by April 2019.

The total capex, which we plan to do is about Rs.26, 800 Crores. This would be spent over a period of three to four years. So, now we leave the floor open with this and take your questions.

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 Rajesh Lachhani from HSBC. Please go ahead.

Rajesh Lachhani: Thanks Sir for the opportunity. Sir, two questions from my end, one is our guidance for the next year is 15.5 million tonne, which is just 5% up Y-o-Y. In the previous year, despite 26% growth we were able to achieve 22% growth in sales, so is not this very conservative and secondly wanted to understand any incentives with regards to exports that we have got and how is it accounted? Thank you.

Jayant Acharya: So, our crude steel production guidance for the FY18 is at 16.5 million, which is a growth of about 4.4%. If you look at the capacity utilization, the capacity utilization would be about 92% at 16.5 million tonne of crude steel production. At the same time, our sales guidance for the FY18 is at at 15.5 million tonne, which is a growth of 4.9%. We are not guiding a number higher than this as we believe that the capacity utilization at 92% will be an optimum level. Therefore, we are limited by this for this particular year. As far as export benefits are concerned, they are already accounted in the gross sales itself with respect to whatever benefits are received.

Rajesh Lachhani: Sir, so just to follow up on the guidance, so once we achieve 92% capacity utilization in FY18, so in FY19 does it mean we would find it difficult to increase volumes because we do not have any additional capacity coming in during this period?

Seshagiri Rao: Good evening to everybody. If we look at FY19, you must have seen our guidance for capital expenditure. We are planning to revamp BF-3 at Vijayanagar and expanding its our capacity by 1.5 million tonne to 4.5 million tonne. We will be able to complete this modernization and expansion in maximum 20 months' time which includes a 16 months' pre-preparation and 130 days' shutdown. For instance, if the things look better in FY19 then we can reduce that and make it operational quickly in FY19. And we will not shutdown the BF-2 shutdown. So this way, there is a possibility of some increases in production in FY19 but not by this 1.5 million tonne.

Rajesh Lachhani: Thank you.

Moderator: Thank you. We will take the next question from the line of Pinakin Parekh from JP Morgan. Please go ahead.

Pinakin Parekh: Sir, thank you very much. Just three quick questions. First is given the large capex that has been announced of roughly Rs.27,000 Crores and that there should be some increase in net debt even if it is marginal, does it mean that any acquisition of distressed assets is now ruled out or is that option separately also being considered on the table if an asset comes up, which is attractive enough? Just trying to understand that if we are looking at leverage, given the project plans that are there, would that acquisition also be a possibility?

Seshagiri Rao: We have been guiding that we are comfortable within the consolidated net Debt-to-EBITDA level at 3.75x and consolidated net debt-to-equity level at 1.75x. Whereas, if you see, our net debt-to-EBITDA was 3.41x and net debt-to-equity was 1.81x as on March 31, 2017. So we have planned or announcements this Rs.26,800 Crores capex keeping these two ration in mind. We wanted to keep these two parameters in mind while raising debt or taking up all these projects. Accordingly, we are planning. So whether it is acquisition or it is a capex, if such opportunities arise, at that time we would need to see how to fund those things within these two guidelines. That is how we will do it.

Pinakin Parekh: Understood Sir! Sir my second question is on the capex on both Dolvi and Vijayanagar. Now at Dolvi do we need to also do any spending of any coke oven batteries or is it part of this and at Vijayanagar there was a Supreme Court guidance in terms of the overall Karnataka, I think steelmaking capacity or iron mining, whatever, so does the Vijayanagar expansion be within that guideline ambit or can Vijayanagar expand irrespective of the guideline?

Seshagiri Rao: As far as Coke oven is concerned, last year we have guided a capital expenditure of around Rs.2,000 Crores. So we have spent close to Rs.1,000 Crores on that, balance left out is Rs.1,050 Crores and that is part of the overall capex guidance of Rs.26,800 Crores. This coke oven plant will get commissioned by December 31, 2017.

As regards to your question on the Vijayanagar side, today the Supreme Court has stipulated the ceiling of 30 million tonnes per year of iron ore mining in Karnataka. At the same time, there is auction of mines where additional capacity can come in. Just to give you a number, 26.5 million tonne has been produced in FY17 against the 30 million tonnes cap. So in FY18, this may reach 30 million tonnes, even without taking into account the additional iron ore that would come into the market from auction mines, including the mines won by JSW. That is why State Government of Karnataka and the Karnataka Industries Steel Association approached the Supreme Court of India to increase this ceiling from 30 million tonne to 40 million tonne. So we are very actively pursuing to get this ceiling increased.

Pinakin Parekh: So just to clarify, the Vijayanagar expansion, if tomorrow the approval comes from the Supreme Court to take 30 million tonne to 40 million tonne, would it be possible for the company to consider a brown field expansion at Vijayanagar from 12 million tonnes to whatever, 15 million tonnes or 18 million tonnes. Is the infrastructure in place or there are constraints other than the iron ore limit imposed by the Supreme Court?

Dr. Vinod Nowal: Other than iron ore, all the infrastructure is available to go to 16 million tonnes. We are actually waiting to complete our Dolvi expansion and then we will decide at a later stage if further we can expand in Vijayanagar. But infrastructure is in place for even up to 20 million tonne per year capacity.

Pinakin Parekh: Understood. Thank you very much Sir!

Moderator: Thank you. We will take the next question from the line of Amit Dixit from Edelweiss. Please go ahead.

Amit Dixit: Good evening Sir! Thanks for giving the opportunity. Just two questions from my side. One is, what was the cash flow from operations in FY17 and the second one is can you let us know the level of acceptances as on March 31?

Seshagiri Rao: The level of acceptances as on March 31, 2017 is approximately US$1,385 million. Similarly, capex acceptances are US$156 million.

Amit Dixit: And what was the cash flow from operations in FY17?

Seshagiri Rao: See we have consolidated EBITDA of Rs.12,174 Crores. If you take out interest, tax, and also the dividend which we have paid last year, it will be approximately Rs.8,000 Crores. That is the kind of free cash flow in FY17.

Moderator: Thank you. We will take the next question from the line of Ravi Shankar from Credit Suisse. Please go ahead.

Ravi Shankar: Good evening Sir! Just one question on the product mix. So the idea is that with this expansion we will get more flat focused, what is the rationale behind that, is it because the flats market easily finds acceptance in the export market and we have a thrust on exports or is it just pure economics in terms of profitability?

Jayant Acharya: No. One thing is that you need to look at India from the demand perspective. As I was mentioning, you need to look at the automotive sector, the renewables, the water and gas pipelines. The hot rolled/flat steel demand, which has been by and large muted in the last two to three years, we expect this to pick up going forward. Also, the value-added products, which would get made, where our capacities are already fully utilized, would be possible through an expansion of the hot rolling mills and therefore the cold rolling and coated complexes. The other part is that the flat products are more amenable for exports. So, it has the flexibility for both the geographies and that is helpful.

Ravi Shankar: So on that front, if I may just add, you believe that the Chinese export offers are said to improve from current levels, is that the kind of a working assumption, which is going into your model because at $420 or $430 per tonne there is hardly any EBITDA to be made?

Jayant Acharya: So I think for a long-term capex of, when we are looking at a three-year scenario, we are not getting currently guided by the spot numbers of Chinese in the system, but the fact, which we have to keep in mind is that there are trade remedial measures, which are in place against China by various parts of the world and that would continue to exist for some period of time. We are also seeing some unwinding of Chinese capacities. So, that may be other positives but we are not taking the pricing as an immediate decision point for the long-term capex. Our decision is more based on the increasing demand, which is likely to be created in India. It is given the fact that the available capacity to meet this increase in demand is very low and unless capacities are put in place, the demand in India would have to be essentially met by imports. This is one of the main considerations, which we are taking into account.

Ravi Shankar: Thank you. That is very helpful.

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

Bhavin Chheda: Good evening Sir! Few questions. Sir, your capex number of Rs.26,800 Crores, does it include maintenance capex or that would be a separate number?

Seshagiri Rao: Yes, it includes.

Bhavin Chheda: What is the maintenance capex annual run rate?

Seshagiri Rao: Yes, this we have already mentioned around Rs.1,200 Crores to Rs.1,500 Crores is the kind of range.

Bhavin Chheda: That is the maintenance? Maintenance run rate is Rs.1,200 Crores to Rs.1,500 Crores per annum?

Seshagiri Rao: Right.

Bhavin Chheda: The other question is, what is the gross debt number and breakup of gross debt into term debt and working capital?

Seshagiri Rao: This we can provide you, but broadly if you ask me, Rs.1,800 Crores is the cash that is available as on March 31, 2017. So we have already given the number of Rs.41,549 Crores as the net debt. How much is working capital, how much is foreign currency that we can give you later.

Bhavin Chheda: What would be the average interest rate right now on the gross debt numbers?

Seshagiri Rao: 7.28%.

Bhavin Chheda: And are we doing any refinancing there to reduce there or can we expect this to be the optimum one?

Seshagiri Rao: Yes, we have a target to reduce by it 15 basis points in this year.

Bhavin Chheda: 15 bps this year. Other is, what would be the tax rate for next two, three years, would we now be coming closer to MAT because again we are going into capital expenditure and all that, so what would be the guidance on tax rate?

Seshagiri Rao: No, we continue to be a MAT paying company, at least in the next two-to-three years' time.

Bhavin Chheda: So we will continue to be a MAT paying company and last one what would be the landed cost of iron ore and coking coal in this quarter?

Seshagiri Rao: We are not giving those details; it varies on a daily basis. What we can talk about is the coal price, which Jayant will address.

Jayant Acharya: So for the last quarter, if you recall, we had guided that the coking coal blend cost for us would go up on a CFR basis by about $50. So it has been more or less in that range. Our coking coal blend cost is about $220 CFR India. As you are all aware of that the coking coal prices have been very volatile. In the month of November 2016, it had peaked at $300, it came down over the next two to three months, again went up sharply to $300 plus in March and April 2017. It has again corrected to some extent, but the swing in prices and the volatility is an expensive affair for us as steel producers. We are buying coal on index on a monthly basis, so that would impact cost to some extent, but I think we are seeing a trend of the prices coming down, so it should go down in the next quarter.

Bhavin Chheda: So quarter one blend should be lower than $220 CFR right?

Jayant Acharya: It has been very volatile. Earlier we could probably give you kind of a range, but the extent of volatility is very high, therefore I am refraining from giving a range, but let us say that it would be range-bound in this particular quarter and most of the benefits will accrue in the next quarter.

Moderator: Thank you. We have the next question from the line of Ashish Kejriwal from IDFC Securities. Please go ahead.

Ashish Kejriwal: Thanks for the opportunity. Sir two things, one in the third quarter also in purchase of traded goods we have purchased some iron ore for our subsidiaries and booked profit in standalone company, have you done the similar thing this quarter also and if it is what kind of trading benefits we have earned?

Rajeev Pai: This amount of traded goods in 4Q and 3Q is more or less at the similar level, so the benefits remain more or less at the same level.

Ashish Kejriwal: And secondly Sir when giving guidance in terms of your net debt-to-EBITDA and debt-to-equity you are trying to be at a comfortable level on gross front, so is it possible that we are also looking at some equity raising, so that in case if any opportunity arises we can go for it?

Seshagiri Rao: We are getting enabling resolutions in place. We will keep these gearing ratios in mind. The way we have planned today the capex of Rs.26,800 Crores, taking into account the current environment and as per the estimate by the management, it does not warrant raising of equity. But if such situation arises, the environment changes then we will do it.

Ashish Kejriwal: Enabling resolution is for raising loan or raising fund?

Seshagiri Rao: Both for loan and equity.

Ashish Kejriwal: And Sir lastly, we have been hearing that there is some news link, you have made some arrangement with Uttam Galva, so is it possible to give some sight on that?

Jayant Acharya: Yes, so we have entered into a conversion arrangement with Uttam Galva. We would be utilizing their facilities for production of value-added products like cold rolled, galvanized, color-coated etc. That is the arrangement we have. We have just started in this month and it would be sold by us in the market ultimately.

Ashish Kejriwal: Sir, lastly, you have mentioned that you are trying to increase capacity of BF-3 versus BF-2 and that can lead to a saving, is it possible to give some hint on what kind of saving on a per-tonne basis we can make out of it?

Seshagiri Rao: It is BF-3 whis is getting expanded whereas BF-2 is most extensive blast furnace for us. So, once this expansion is complete and if we shut down BF-2, there could be a saving in the fuel cost and we can also opt for more PCI injection. We expect that all this put together can lead to about Rs.2,000 per tonne saving at hot metal level to the extent of 1.3 million tonnes to 1.5 million tonnes of hot metal being currently produced by BF-2.

Ashish Kejriwal: Fair enough. Thanks a lot and all the best.

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

Ritesh Shah: Congratulations for a good set of numbers. First question is for Acharya, Sir! Sir, you indicated as per National Steel Policy, raw material to be available at competitive rates to steel mills. Sir, what should we make out of this?

Jayant Acharya: So, the National Steel Policy has outlined various objectives. We are also awaiting the mechanisms by which this will be laid out. So once that is clear to us, we will also be able to throw some more light on that, but as per the policy, they want to support the domestic steel players with raw materials at competitive prices.

Seshagiri Rao: But at the same time, I invite your attention to the policy prepared by the NITI Aayog on the iron ore pricing. On the iron ore pricing side, they have talked about cost-plus price policy. The cost-plus price policy does not mean that the iron ore will be sold at cost plus price but it would be a price which would be fixed for the purpose of auction either in Odisha or in Karnataka. Otherwise, today the base prices are getting fixed artificially at substantially very high levels. Due to shortage, people are buying iron ore even at a price higher than the base price. So, in order to resolve this problem, the NITI Aayog has prepared this policy paper, which is about the cost-plus formula to be followed for the purpose of determining the base price for the auctions.

Ritesh Shah: That helps a lot. Sir, my second question is on, any specific update on the Ilva bid that we have put?

Seshagiri Rao: No, we are also awaiting the outcome. We have submitted the bid as a part of the consortium. As you know, we are a minority partner. We also do not know the outcome; we are awaiting that.

Ritesh Shah: But Sir, how should one look at it, given the capex guidance that we have given and the cited net debt and net equity number what we are targeting, so hypothetically if something of this sort goes through, so then how does the scenario change?

Seshagiri Rao: No, as we have been guiding that we would like to maintain these two gearing ratios whether we go for inorganic growth or organic growth. So, we would like to manage our capital structure within these parameters.

Ritesh Shah: Sir, can I stretch it a bit. If Ilva goes through, then would it mean that we will defer our domestic capex plans?

Seshagiri Rao: No. I think, even if the Ilva bid goes though, we would have to see what is our total exposure. So, we are very cautious and we keep these are the two ratios in mind whenever we have to take any decision. So, we will be very, very cautious about our exposures with regard to Ilva or any other inorganic opportunities. We will take a call to defer any capex program, if such a question arises, at an appropriate time. The way we have done earlier for our Dolvi expansion. We were planning the expansion but we put it on hold. So similarly, if any attractive opportunity come in, then we keep the overall ratios in mind and accordingly we will moderate, or manage, or calibrate the capex plan.

Ritesh Shah: Would it be correct to infer that it would not mean an equity raise if Ilva also goes through and if you go ahead with our domestic capex plans?

Seshagiri Rao: Capital structure of the company will be done in a manner that we will stick to these two ratios. It could be equity, it could be debt, it could be a bond, it could be rupee loan or it may not be. It will be very difficult to guide today as to whether we will do it or we will not do it. But all I can say it that we will definitely keep these two ratios in mind.

Ritesh Shah: That helps.

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

Dhawal Doshi: Sir, can I just have some view as far as the pricing is concerned in the domestic markets. So what could be the kind of pricing pressures that we could see in the coming quarter?

Rajeev Pai: By coming quarter, you mean the April-June quarter?

Dhawal Doshi: Yes. So your outlook on pricing as far as in the near term as well as one-year time frame outlook?

Rajeev Pai: Yes, so from a Chinese/international perspective, you may have seen that in the last few weeks, the Chinese prices did moderate and we have seen some moderation in the pricing globally. However, we feel that the elevated raw material prices, especially of coking coal, would keep the steel prices range-bound. We also do not see much of viability at the current level of offers by Chinese in the last 2-3 weeks. So we do feel that there would be a stabilization on that price probably with a slight uptick. Therefore, I expect a range-bound price scenario. Having said that, I think our focus would be to see that our margins get protected.

Dhawal Doshi: So it is safe to assume that we will at least maintain the gross spreads throughout the year in terms of the pricing, because the fear is given the drop in the Chinese prices and domestic ore supply scenario, we might have to see a sharp drop in the Indian prices or the domestic market prices?

Seshagiri Rao: No, today, either for you or for us to predict exactly what is going to happen is difficult. So much of volatility and uncertainty is there. So in this environment, JSW Steel has to be looked at as a converter. If the steel prices come down, automatically iron ore and coal prices also will come down, we may have to take inventory losses in one quarter due to lead-lag effect. So, we continue to manage our business as a stable business with stable EBITDA margins, we will try our best to preserve the margins.

Dhawal Doshi: Sir one question on the safeguard duties and the anti-dumping duties, which are currently levied. I believe safeguard duty is a bit more effective compared to the anti-dumping duties.

Jayant Acharya: The safeguard duty kicks in below $445 CFR. You may be thinking from a point of view that safeguard is applicable for all countries whereas anti-dumping is country-specific. So if that is the reason, then yes, safeguard is a bit more effective compared as it is applicable to all countries.

Dhawal Doshi: So it is $445 into 15%, is that the correct way to read it?

Jayant Acharya: it is $445/t, plus the basic duty applicable for the respective country. So if it is flat products, it will be 12.5%, but if it is from FTA countries like Japan or Korea then the basic duty would be nil.

For anti-dumping duty is minimum specified price level, let us say for hot rolled sheets, of $489/t. So the anti-dumping comes into picture at the time when the prices are above $445/t levels but below $489/t. So at that time, the anti-dumping number would kick in also for the Japanese and the Koreans or any FTA country, and therefore will provide relief at a time when safeguard may not work. So this combination works well.

Dhawal Doshi: Thanks. I have more questions I will come back in the queue.

Moderator: Thank you. We will take the next question from the line of Abhijit Mitra from ICICI Securities. Please go ahead.

Abhijit Mitra: Thanks for taking my question. Just had a quick query on the downstream, which has been planned for Dolvi. So, first, is the choice between compact strip mill and HSM, had you given a thought towards that and secondly in HSM what would be the mix towards auto and general engineering, some broad thoughts on that would be helpful? Thanks.

Jayant Acharya: So, as we said in that the Dolvi expansion includes a 5 million tonne hot strip mill. We are looking at a conventional mill. As far as the product mix is concerned, we would to bring to your notice that we are also enhancing/upgrading our downstream facilities at Vijayanagar as well as Vasind and Tarapur. So this would cater to sectors like automobile, construction, appliances, as well as the renewable energy market in which we are growing quite rapidly. And part of the balance hot rolled product would be available in the form of HR black for the pipes and tubes for the pipeline projects. The remaining balance can cater to structural, cold rollers or converters/re-rollers in the country and internationally as well.

Abhijit Mitra: And hypothetically, if you were to expand the Vijayanagar capacity from 12 to 16 today, would you stick to this mix again or would you like to tinker around on the longs as well?

Jayant Acharya: We would take a call at an appropriate time, when we take that decision, after considering the capacities, if any, which comes up in the meantime as well as the progress of infrastructure growth in the country over the period.

Abhijit Mitra: Thanks. That is all from my side.

Moderator: Thank you. We will take the next question from the line of Kamlesh Bagmer from Prabhudas Liladhar. Please go ahead. As there is no response we move to the next question from the line of Sumangal Nevatia from Macquarie. Please go ahead.

Sumangal Nevatia: Thanks. Couple of questions. One on the iron ore mines, is there some delay to an earlier expectation, and if you can elaborate on the latest timelines for mining?

Dr. Vinod Nowal: From C category, we got five mines and all five mines. We have applied for forest clearances. Out of five, two mines are in very much advanced stage now. It has gone to Delhi for transfer of the forest clearances in our name and hopefully this will happen in second quarter. The other three are also in pipeline but these three may take little more time. However, we are hopeful to get these also within this financial year.

Sumangal Nevatia: So after forest clearance, immediately we can start, or any other...

Vinod Nowal: After forest clearance, we can go for lease execution immediately. So from today onwards you can say two to three months this can happen for the two mines.

Sumangal Nevatia: Understood. Second, in the capex waterfall chart there is almost Rs.3, 000 Crores of cost saving projects. Any specific major project here, given the significant amount?

Seshagiri Rao: This includes cost saving projects plus normal capex.

Sumangal Nevatia: Understood. Just one last question. How are the spot export realizations versus domestic realization, just trying to understand what quantum of benefit India gets, given the anti-dumping duty against China in various geographies?

Jayant Acharya: So, internationally we have been focusing in terms of exports of value-added grades in a big way. So over the last few years, we have been developing our value-added product mix in the export market as well. So the value-added products sales in the export market grew quite well in the last year, and we plan to continue our journey on that. In the area of hot rolled products, wherever we are in competition with the Chinese, we basically would get some premium over the Chinese products, which would range between approximately $15 to $20/t driven by shorter lead time by us as well as a more consistent and reliable approach to various markets. In other products or markets, where the trade measures are already in place against China, there we may have a pricing, which would be akin to other competing imports or the domestic prices as the case may warrant.

Sumangal Nevatia: Understood. So I mean, with respect to export, currently our domestic price is $70 to $80 higher, is that the right ballpark understanding?

Jayant Acharya: Can you repeat that, sorry.

Sumangal Nevatia: So the spot export realizations versus domestic, given Chinese prices have corrected in the last three to four weeks, is there a $70, $80 difference in export and domestic prices?

Jayant Acharya: No that kind of a gap is not there. First of all, global prices usually align themselves very fast. So whether it is domestically or internationally, prices basically will follow a particular global pattern only. The prices in the Chinese side have come down, but it has not been the case across geographies. So you will see Asia more being impacted by the Chinese price, maybe because the trade barriers are in place only in some countries. But the price corrections may not have been to that effect or to that extent in the developed world, as by and large, there are some trade measures in place. So there the prices would still be at a higher level. However, the domestic prices in India, I would say are range-bound.

Sumangal Nevatia: Understood. That is helpful. Thanks and all the best.

Moderator: Thank you. We will take the next question from the line of Dhruv Muchhal from Motilal Oswal Securities. Please go ahead.

Dhruv Muchhal: Thank you Sir! Sir, on our strategy to expand in Dolvi as against Vijayanagar, given that Vijayanagar will have significant iron ore advantage, assuming that by FY20 there will be more mines coming up, so just your thoughts on this because of the demand potential near Dolvi.

Seshagiri Rao: There are more opportunities as far as Dolvi is concerned. It is well placed for exports but it is also in the growing market of western India. We are also expanding our downstream capacity, so we will be able to sell more volumes within Maharashtra and get the benefit of VAT even post GST as the benefit is expected to be subsist. I think, taking all this into account, Dolvi appears to be a good alternative right now.

Dhruv Muchhal: And Sir secondly, just on the structure of the market currently, so if you see, your export realization will be significantly lower than your domestic market and the domestic market in terms of demand is not picking up as much as we should expect. So, you probably will be looking at exports and probably other players too. So does it not create an argument for the downstream industry to say, I mean you are exporting at a lower price and still you want protection, so just wondering, I mean, how does this situation play out?

Seshagiri Rao: It is a very wrong assumption that the export prices are lower than the domestic price. In fact, if you had asked me a few months back, opposite was true. The export prices were far better than the domestic price. It is incorrect to say that domestic prices are higher than the export prices. If it is so, we could not have achieved a EBITDA margin of Rs.7,586/t in the last quarter. It is not possible to export at prices lower than domestic market on a sustainable basis.

Dhruv Muchhal: No, I am saying, because you have the duty protection, so you are protected there, but you will keep exporting because the domestic market is not improving because currently the export prices are lower than your minimum import or the anti-dumping prices, so in that scenario.

Seshagiri Rao: No, today whatever restrictions are there, there is only a floor that has been kept. Nobody would export at a prices lower than the levels prevailing in domestic market and thereby hurting the domestic industry or causing injury to the domestic industry. But if that happens, most of the companies in the world would lose money, that is what has happened in the year 2016. So this is a very theoretical scenario. We do not see such scenario to happen or sustain for a longer period of time, if at all it happens.

Dhruv Muchhal: Sure Sir! Thank you so much Sir!

Jayant Acharya: And the anti-dumping number, also remember $489/t includes the basis duty for the affected countries. So in case if it is a country like China or Russia then basic duty at the rate of 12.5% is included. So effectively, it would mean a price of $435/t CFR for India, which currently is not what the international prices is. Neither the domestic price nor the export prices are actually at this low level, therefore, today there is no relief or protection from the anti-dumping duties at current price levels.

Dhruv Muchhal: Thank you Sir!

Moderator: Thank you. We will take the next question from the line of Vikas Singh from B&K Securities. Please go ahead.

Vikas Singh: Good evening Sir! Just one clarification. You said that you have Rs.8,000 Crores of capex next year and at the same time you said you would be able to maintain, gross debt would not increase that much, so is that a fair assumption that you are building up a substantial free cash flow next year?

Seshagiri Rao: We are not guiding that gross debt will be maintained. We are guiding that we will keep in mind the two gearing ratios, which we have been communicating. We want to keep net debt-to-EBITDA at 3.75x and net debt to equity at 1.75x. We will continue to maintain these two ratios, within that overall debt can go up or down.

Vikas Singh: That is all from my side Sir!

Moderator: Thank you. We will take the next question from the line of Anshuman Atri from Haitong Securities. Please go ahead.

Anshuman Atri: Thank you for the opportunity and congratulations on a strong performance. Sir my question is regarding the new products, which will be launched after the expansion. So how much of that can substitute the imports and out of this 8 million tonne of total imports, which are coming in, what portion can be substituted by domestic players and what is something which India is still not producing, what quantum?

Jayant Acharya: So, today with the kind of state-of-the-art technologies that we have, we are able to produce most of the special steels. As a matter of fact, for the automotive with our 980MPa cold rolled capability, I think we are meeting most of the requirements of automakers in the country. Probably, if I were to put a number, I think 98%-99% of the steel, which is required by automakers is available now in India. So, the capability of substitution, possibly now, is very high vis-a-vis imports for all the value-added steel products. Going forward, even the auto companies would like to localize, because it gives them an advantage of just in time delivery. The ability to get the material from a domestic supplier on a lead-time basis is very short, probably less than a month vis-a-vis probably a three-month cycle from international market. So, yes, cold rolled, galvanized, galvalume, color-coated whatever is coming into the country, there is a potential to substitute that with the production, and we are increasing capacity of this products with our new expansion program.

Anshuman Atri: Second question is regarding the 300 million tonne, which the government has targeted. So what is JSW's aspiration as to what capacity JSW would have when the country goes to 300 million tonne?

Seshagiri Rao: I think, we have explained our vision, we have today about 15% market share. India has a total 128 million tonnes installed capacity and we have 18 million tonnes capacity. So if it becomes 300 million tonnes, we would like to maintain our share, that would be around 40-45 million tonnes at 15% market share. We have been guiding that this is what we would like to do in the next decade, either through green field or brown field or inorganic route.

Anshuman Atri: But given the stress in the system and JSW's financial strength, can it not do better than the industry in terms of gaining market share?

Seshagiri Rao: That is possible, but we have not seen it yet. In my view, at least in India, expansion will be only through brown field or green field route. We are able to do the brown field or green field expansions at a very very efficient cost. The inorganic growth opportunities in India are very limited because of no meeting of minds between the lenders vis-a-vis the investor like JSW. There is a huge debt in each of these stressed companies, which are lying with the lenders, and the expectations from the are very much on higher side.

Anshuman Atri: Just lastly, what is the potential capacity of Dolvi and how much can it go further beyond 10 million tonnes?

Seshagiri Rao: We have the environmental clearances today up to 10 million tonnes, so beyond 10 million tonnes we need to look at what could be done, but right now it is at 10 million tonnes.

Anshuman Atri: In terms of land availability and everything, what is the potential for this unit?

Seshagiri Rao: It can go up to 15 million tonnes, subject to acquiring more land.

Anshuman Atri: Thank you Sir for taking my questions.

Moderator: Thank you. Due to time constraints we will take last two questions, first we will take from the line of Kamlesh Bagmer from Prabhudas Lilladher. Please go ahead.

Kamlesh Bagmer: Thanks for the opportunity Sir! Sir just with regard to the EBITDA pattern. How much EBITDA per tonne on a consistent basis, we should look for with protection from the anti-dumping and safeguard? Will it be the same Rs.7,500 EBITDA per tonne, which we used to maintain and which we have delivered very successfully despite so much of volatile environment?

Seshagiri Rao: Kamlesh, we do not guide on the EBITDA, but we do guide on volumes. So, we will try to achieve that volumes as guided by us. So we will work towards that. At the same time, when there is high volatility in the market, we continue to work on cost reduction measures. So that is another area of our expertise; implementation of the projects at a very competitive cost and managing the same very efficiently, lower finance costs. That is how we manage the overall situation. However, we will not be able to guide on the EBITDA per tonne.

Kamlesh Jain: And Sir lastly on the part of your guidance, like say if I see the guidance, you are targeting around 5% odd growth in the sales volume, so if we see the exports we had 3.8-odd million tonne exports with a growth of almost around 163% odd, so for next year with this guidance are we factoring in higher domestic volumes or it is mainly going to the exports?

Jayant Acharya: So we have exhibited flexibility on this front. In 2015-2016 our exports were at about 1.5-1.6 million tonnes or say about 12% of our total sales whereas in 2016-2017 it increased to 26% of our total sales. So I think, we have the flexibility to quickly achieve higher export volumes from the markets wherever there is a requirement as we are able to maintain relations overs a very large geographical base. But having said that I think we will monitor the international markets and the domestic market and then accordingly will take a measured call.

Kamlesh Jain: And Sir this Dolvi plant, this expansion, would we be having all those VAT benefits even in the regime of GST, this 5 million tonne expansion?

Seshagiri Rao: VAT benefit/incentive, which is being extended for large capital investments in the State of Maharastra, will continue in the post GST scenario. That is what is being talked about. But there is no clarity yet as regards to CST as whether it will be preserved or not post GST.

Kamlesh Jain: So that would be equivalent of 2% odd?

Seshagiri Rao: Yes. But the VAT is today let us say 5%, the post GST, SGST goes up to what level, let us say 8% to 9%. We are not clear about how much amount of the benefit they would pass on as SGST is nothing but state VAT/levy. But the letters, which have been given to various industries when they approached for sales tax incentives, they said in the post-GST, VAT benefit will be preserved.

Kamlesh Jain: Thanks a lot Sir!

Moderator: Thank you. We will take the last question from the line of Chetan Thacker from ASK Investment Managers. Please go ahead.

Chetan Thacker: Good evening Sir! Sir, just one question on the 3.8 million tonne exports that is there, how much of that is going to markets where there are already trade measures similar to our country?

Jayant Acharya: Do you mean our trade measures or measures against India or against China or what?

Chetan Thacker: No, against China, so similar measures that are in place say in India for Chinese and Russian imports, so how to…

Jayant Acharya: I think about 89 measures across the world has been put against China. So I think major parts of the geographies are covered. But I do not have the data off hand as to which all countries in terms of our numbers are there, where trade measures are effective against China.

Chetan Thacker: And which would be the larger countries where we are exporting or we have exported in FY17?

Jayant Acharya: As we have been saying that we are covering over 100 countries worldwide. We do our shipments through containers and break bulk. So we have a large base across the world.

Chetan Thacker: So, it is well diversified and there would not be a significant concentration in a year?

Jayant Acharya: It is well diversified except for the US where there are anti-dumping or trade remedial measures against India as well. By and large, the rest of the world is diversified.

Chetan Thacker: Sure. Thank you so much.

Moderator: Thank you. That was the last question. I now hand the conference over to Mr. Dhruv Muchhal for closing comments.

Dhruv Muchhal: Thank you, everyone for joining in and thanks to the Management to give us this opportunity. Pritesh, if you want to close it or should I?

Seshagiri Rao: Yes, I just wanted to highlight one or two points at the end. All these projects, which we have taken up, will be implemented over a period of three years. Out of that coke oven project will get completed by end of this calendar year. So that would again give us savings. Today we are buying the coke at both Vijayanagar and Dolvi. So this will reduce our cost on commissioning of coke oven plant. That is one point.

The second point is that we have taken certain cost reduction measures in this year on the digital side. So, in the digital side, we have identified 25 projects, which has a potential to give a savings of Rs.300 Crores that is what we are focusing on this year. This is the first wave. In the second wave, we will be identifying more projects in the second half of this financial year. This is the second area of cost reduction, which we have taken up.

The third point, which I wanted to highlight with regards to cost savings is that one deep drive project we have taken up across all the locations, particularly in the logistics, fuel efficiency/energy saving side. So, this should give us additional savings to us. So we have been consistently working on cost saving side to improve our margins.

Apart from this, I would like to point out that we will be spending only Rs.8, 000 Crores in this year out of the total announced capex of Rs.26,800 Crores. The way we are structuring the entire financing is that we will raise new debt only to the extent we repay outstanding debt unless there is some change in market conditions. Therefore, as I mentioned, we will very cautious about the overall gearing ratios and the guidance, which we have given. So, we are very confident that we will be able to achieve our FY18 production and sales guidance of 16.5 million tonne and 15.5 million tonne, respectively. Thank you very much.

Moderator: Ladies and gentlemen, on behalf of Motilal Oswal Securities that concludes this conference call for today. Thank you for joining us. You may now disconnect your lines.