"JSW Steel Limited – 1Q FY2018 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: **Goutam Chakraborty – Emkay Global Financial Services**

Moderator: Ladies and gentlemen, good day and welcome to the 1QFY18 Results Conference Call of JSW Steel Limited 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 '*' followed by '0' on your touchtone phone. Please note, that this conference is being recorded. I now hand the conference over to Mr. Goutam Chakraborty from Emkay Global Financial Services. Thank you and over to you.

Dhruv Muchhal: Thanks Lizann. Hello, 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 the senior management of JSW Steel. And now I would like to hand over the floor to Mr. Pritesh Vinay - VP Capital Markets and Group Investor Relations to take you further. Over to you, Pritesh!

Pritesh Vinay: Thank you Goutam. A very good evening to all the participants. I welcome all of you on JSW Steel's first quarter fiscal 2018 earnings call. We have with us today the senior management team represented by Mr. Seshagiri Rao, the Joint Managing Director and Group CFO; Dr. Vinod Nowal, the Deputy MD; Mr. Jayant Acharya, Director, Commercial & Marketing; and Mr. Rajeev Pai, the CFO.

So you are all familiar with the format. We will start with a few minutes of opening remarks by Mr. Rao and then we will open the floor for Q&A. I would request all the participants to restrict your questions to two per participant in order to give everybody a fair opportunity. So with that, I'll hand the floor over to Mr. Rao for his opening comments

Seshagiri Rao: Good evening to all of you. I am happy to share with you the performance of JSW Steel for the first quarter of the fiscal year 2018. As you all are aware, global steel production has been going up. In the first half of the year, we have seen a 4.5% growth. Even China, when everybody anticipated that its steel production as well as demand will be flat in CY17, has recorded highest ever steel production in the month of June 2017 at 73 odd million tonnes. Overall China has also seen a production growth of 4.6% in the first half. So with more production, global steel capacity utilization gradually increased to 73% in the month of June from as low as 67.6% in the month of December. So with this more production, in spite of moderate exports from these four countries, Russia, China, Japan and Korea, we have seen the price correction of steel in the international market, particularly HR coil we have seen in this quarter, a 13% reduction. In line with the correction in the global steel prices, particularly of the hot roll coils, the iron ore and coal prices also corrected.

As regards to India, crude steel production went up by 3.5%, consumption grew by 4.6%; which is better than last financial year. Imports more or less are stable at around 5.5 lakh tonnes to 6 lakh tonnes whereas Indian steel prices also got corrected in the last quarter, in line with the international prices.

In addition to these factors, one more important development in India is water shortage. Water shortage in the south, particularly in the Tamilnadu, had impacted production to some extent at our facilities. In addition to that, when we wanted to sell our products, sales was impacted by introduction of GST from 1st of July. Even though there were some uncertainties in the month of May, once it was becoming clearer that it would be implemented from 1st of July, the sales were impacted with destocking in June.

In view of these factors, we could achieve a production of 3.9 million tonnes, year-on-year a 1% growth which is slightly lower than our guidance. The sales were at 3.5 million tonnes, which is a growth of 5% year-on-year. Then as regards to sales realizations in this quarter, in line with international prices drop, we also adjusted the hot roll coil prices. But if I look at the blended sales realizations, they are more or less at the same level on sequential basis. However, we are able to maintain this by increasing our value added products sales to a large extent, because prices of those products have not fallen, they were more stable or had an upward bias in the last quarter. So our value added products sales went up from 35% to 38%. So this had helped to maintain blended sales realizations almost at the same level on sequential basis.

The cost of production was under pressures. Iron ore prices in India have not got adjusted unfortunately in the last quarter despite 25% drop in international iron ore prices in the last quarter. NMDC adjusted the price only from 1st July by Rs. 200 per tonne. So cost of production was under pressure due to higher iron ore prices. We also had to consume the coking coal opening inventory which was expensive. Later on, coking coal prices started coming down. So some benefit has come to us sequentially over the last quarter, but the last didn't have full benefit of lower coking coal prices. So overall cost of production was at a higher level. So this has put the pressure on the EBITDA per tonne for standalone company which came at Rs. 6,266 per tonne. So EBITDA margin for the quarter was at 14.7%. The total standalone was recorded at Rs 15,096 crores. EBITDA for standalone company was Rs 2,197 crores and the profit after tax was Rs 418 crores.

As regards to our subsidiaries, USA Plate & Pipe Mill has done well. The plate capacity utilization went up to 28% and the EBITDA for the quarter was positive at $5 million as against EBITDA loss of $5 million in the corresponding quarter of last year. So there was a swing of almost $10 million in our US operation in this quarter. JSW Coated Products has done extremely well. So it has shown an EBITDA of Rs 205 crores, a 30% growth. During the quarter, value-added steel products went up to 38% in the quarter – CRCA, Galvanised, colour coated, electrical steel all products registered significant growth. Amba River, Salav unit, steel processing centre, industrial gases, Vallabh Tinplate, Marubeni-Itochu joint venture, everywhere there was an improvement in the EBITDA. So, consolidated EBITDA was Rs 2,617 crores and the net profit after tax was Rs 624 crores for the consolidated company. The net debt was Rs 43,323 crores at Jun 2017 end with an increase of Rs 1,774 crores during the quarter – majorly used for incremental working capital required during the quarter.

We are seeing is that steel demand is definitely improving, not only globally, but also in India. What is comforting is that Chinese apparent steel consumption on a derivative basis if you see, in the first six months of the year, has increased by almost close to 9%-10%, which nobody was anticipating. On the top of this, their exports have come down by 28%. So taking that into account, global steel demand outlook is looking better. As far as India is concerned, with increasing public sector spending, we are seeing a traction in the demand from the sectors like roads, power and transmission lines, solar energy, earthquake equipment, pre-engineering buildings, water pipeline, gas pipeline. So, we feel that steel demand will accelerate going forward. So whatever loss of sales we have seen in the 1Q, we are confident that we will be able to make it up in the following three quarters and achieve our guidance of 16.5 million tonnes of production and 15.5 million tonnes of sales for the year.

As regards to GST, we have calculated our benefit of GST and we have passed it on as on 1st of July 2017 while announcing the prices. We are seeing that GST is getting stabilized. We feel that the normalcy will come back in this quarter.

All the announced capex projects are on track. So we are implementing the downstream in our Kalmeshwar, Vasind and Tarapur and also expanding our CRM units at Vasind and Vijayanagar. The expansion at Dolvi from 5 to 10 is also on track.

So, with this I open the floor for Q&A, thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. We will take the first question from the line of Ruchit Mehta from SBI Mutual Fund. Please go ahead.

Ruchit Mehta: I was wondering if you could comment a little bit about the coking coal pricing environment. If I am not mistaken, we have not yet heard anything that is happening on the quarter two contract settlements as well. So if you could give us some colour on that and where do you think coal prices could settle for the balance of the year?

Jayant Acharya: Yes. So the coal prices, coking coal prices specifically have been volatile. In the month of April, we had seen a spike in coking coal prices from Australia, primarily because of the floods and it had gone up to $300 FOB and dropped down to about $146 odd in June. We have seen the coking coal prices move up again somewhat in this month, but we feel that it's going to be range-bound, probably in the range seen in June and July. As we had discussed earlier, most of our prices are index-linked, so it is not on the quarterly settlement basis. So it will move with the index on a monthly basis.

Seshagiri Rao: Regarding the Q2, I just want to add that there will be a reduction in the coking coal prices on consumption basis in JSW Steel. We expect that the reduction would be in the range of around $15 per tonne.

Ruchit Mehta: Okay, fair. And just in terms of your expectations for iron ore per se, because I mean, as you alluded to your comments that NMDC was late in cutting prices, but now you have global price rally that has happened again. So do you expect your prices for the subsequent months to go up again or do you think that they could be stable?

Seshagiri Rao: Overall supply of Iron ore in India is increasing, particularly in Odisha. So Odisha iron ore prices are at significantly lower prices compared to Chhattisgarh and also Karnataka. Whereas as far as our Vijayanagar plant is concerned, this Rs. 200/t benefit has started flowing in from 1st of July. However, iron ore supply increase in Karnataka is very essential for drop in iron ore prices in Karnataka. Today, the total iron ore production that can be made in Karnataka is 30 million tonnes as per Supreme Court directive, whereas they are producing close to 27-27.5 million tonnes. Even though the approvals that have been given for mining is 33 million tonnes, so balance is not coming from the mining companies in spite of the approval. Therefore, new mines permission has to be given along with an increase in ceiling beyond 30 MTPA to improve iron ore supply. So the mining companies plus Karnataka Iron & Steel Association approached the Supreme Court to increase the ceiling beyond 30 MTPA. So that case is getting heard in the Supreme Court. So we expect some relief as regards to remove the ceiling or increase the ceiling. So once that happens, we expect the supplies to go up. That should bring the normalcy in the iron ore prices in the Karnataka State, but we don't expect the prices to go up from the current level.

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

Bhavin Chheda: Sir, what would be the update on the VAT credit in Maharashtra, if any clarifications post to GST?

Seshagiri Rao: VAT credit on non-GST items?

Bhavin Chheda: No sir. In the Maharashtra plant for the sales in Maharashtra, we used to get the VAT exemption or VAT credit, how is the scenario post the GST?

Seshagiri Rao: As far as the approval is concerned, it says that in the post GST scenario, they will protect the state taxes, state taxes in the sense, to the extent of state taxes. So now as the SGST is at 9%, they have to take a decision how much they will do. Is it 5% or is it 9%? So a lot of representations have gone from the industry, the GST council is not taking a call on that, they have left it to the states to do it. So industry has been pursuing with the state governments to take a call on this, including Karnataka.

Bhavin Chheda: But Karnataka, we don't have any earlier VAT credit, so Karnataka is not an issue, right?

Seshagiri Rao: There is a benefit on expansion from 10 million tonnes to 12 million tonnes in Karnataka.

Bhavin Chheda: Okay. So as of now, you are collecting SGST and submitting the same to the state government, right? So the claim would come at the later stage when the state government clarifies?

Seshagiri Rao: We will submit our refund claim as per the approvals that have been given to us. So as per that, we are entitled for SGST. If we get it, it is fine; otherwise we continue to pursue the government. I think at least 5%, whatever we used to get, will not be questioned.

Bhavin Chheda: Okay. And one last question on the difference. This huge incremental number from the other subsidiaries, how much of it will be sustainable in coming quarter, because the difference, if I exclude Jindal quoted and if I exclude the US number, there was an incremental 160, 170 crores EBITDA, which I think you said from Amba River Salal processing units, Vallabh Steel and all that. How much we should built in on a sustainable basis for the coming quarters?

Seshagiri Rao: For the coming quarters, whatever numbers are there, I think we can look at same numbers to continue in future.

Bhavin Chheda: Okay. So there was no one-off in any of the numbers?

Seshagiri Rao: No, I don't think so.

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

Nitesh Jain: Sir, can you provide some commentary on the steel price movement in India. So we gather that in July last week, the steel prices have gone up and then in August local mills are again planning for some hikes. So if you can quantify like the post June, what is the pricing action in July and what is like the, how ours look like?

Jayant Acharya: Yes, so in the month of July, after our correction, we have passed on the GST benefits on a net basis. And we had increased prices marginally in the beginning of or rather around the 7th of July. But the main increase is going to be from 1st of August. As you are aware, the international prices, specifically have moved up if you look from June-end to now by almost $50/t. So there is a case for increasing the prices. So we are going to increase the prices, let us say between August and September. I will not be able to share exact amount with you right now; we are still working that out.

Nitesh Jain: Sure. No problem. And for July, at least you can share like from the June average, is it like Rs. 500 or Rs. 1,000 higher, at least for July. I know that August looks difficult to comment at this moment, but for July you can mention the quantum, please?

Jayant Acharya: Yes, but month-to-month, if I give it to you, it will be a little misleading. So I think it will be better to take a concerted quarter view. But directionally, as we said it is going up. So between let us say, July, August and September, you will see a price increase, reflecting what is happening internationally.

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

Pinakin Parekh: Sir two questions. First, we have maintained our sales volume guidance and if we look at, Q1 was impacted by GST and the water shortage. So it implies a material pick up over the next three quarters. Broadly from a mix perspective sir, should we see an increase in exports over year or you believe that, as you highlighted that demand is improving, the higher volumes can be absorbed within the domestic markets. So I am just trying to understand that should the margins expand materially depending on where do we sell, do we sell locally or do we sell more in the export market?

Jayant Acharya: No, I think, as you know, we have been quite flexible in terms of our shift between the domestic and the export market. Our quarter one export percentage has been about 23%. The domestic markets are picking up, so therefore we would try to focus on the domestic market and maintain exports around this percentage level of sales.

Pinakin Parekh: Sure. And sir second question is that, the annual report mentions that, of the 5 mines, one in the category C auction, 2 mines would be operational by first half of

FY18 and the remaining three over the remainder of FY18. So does the ramp-up of the mine have anything to do with the Supreme Court guidelines of 30 million tonnes production or the 30 million tonnes cap or would JSW mine ramp-up be independent out of that cap?

Vinod Nowal: CEC has given recommendations to over and above the 30 MTPA. So once Supreme Court accepts the recommendations of the CEC, then it will come extra.

Pinakin Parekh: Okay. So to that extent, we'll have to wait for the Supreme Court recommendation in order to basically ramp this mines up?

Vinod Nowal: Yes.

Pinakin Parekh: And sir secondly, the annual report mentioned the certain number of 4.7 million tonnes of this 5 mines, is this the limit imposed by the mining plan or I mean other than the Supreme Court limit, is there any restraint on this number or if the company is able to, it can ramp up the production more than this number, assuming the courts were to allow it?

Seshagiri Rao: 4.7 MTPA is as per the formula set by the Supreme Court earlier. So this is the maximum, unless until it is relaxed in future.

Pinakin Parekh: Okay. So then it will reset and then we have to look at it what we can do?

Seshagiri Rao: Yes.

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

Ashish Kejriwal: Sir, if I'm looking at your JSW Steel Coated numbers and your top line and volumes, which you have given, it seems that your net realization has increased quarter-on-quarter. So, first of all, is that right? And if it is right, then why everything is not coming down to EBITDA, because your HRC prices were lower quarter-on-quarter and there seems to be a net realization for JSW Steel Coated seems to be on a higher side. Or am I missing something in this?

Jayant Acharya: Yes, the sales realizations at JSW Coated Products have gone up between 4Q to 1Q as well as on YoY basis.

Ashish Kejriwal: So I am seeing that the prices have increased by around 1,600 something, but our EBITDA has just increased by Rs. 600 per tonne despite the fact that HRC prices should be lower quarter-on-quarter again.

Jayant Acharya: Yes, it's point-to-point, it may be little difficult, because it's a question of mix of what orders you are carrying at that point of time between export and contracted orders and retail orders. So that mix could change it a bit, but generally it has gone up on quarter-on-quarter basis.

Ashish Kejriwal: Okay. And is it possible to give broad numbers for major subsidiaries' EBITDA like we have given for JSW coated and US operation, is it possible to give for your Amba River and JSW Steel Salal? Any sharp jump up in any of the subsidiaries, because the change which we are looking at from comfort to standalone and JSW Steel Coated and US operations that is not explaining the entire momentum.

Seshagiri Rao: We have already given JSW Coated Products numbers, which is the material in this Rs 450 crores of incremental EBITDA coming in the consolidated numbers.

Ashish Kejriwal: 44 crores?

Seshagiri Rao: 205 crores. 205 crores is from JSW Coated Products.

Ashish Kejriwal: I am looking at the difference from first to fourth quarter?

Seshagiri Rao: Yes, those numbers we will be able to give annually, not every quarter.

Ashish Kejriwal: But is it safe to say that we have seen some jump-up in any of the subsidiaries besides US and JSW Coated?

Seshagiri Rao: Yes, definitely, there is an improvement across the subsidiaries. There is an improvement in Severfield JV. Similarly, there is an improvement at Vallabh Tinplate, Steel Processing Centres, Industrial Gases and even at the new acquisition, which we have made from Praxair and is renamed as JSW Industrial Gases.

Ashish Kejriwal: And we think that we are going to maintain that in next quarter also.

Seshagiri Rao: Right.

Ashish Kejriwal: And sir lastly, when we are looking at the volumes, we are seeing that domestic sales volume has in fact increased quarter-on-quarter, while export sales volume has declined sharply. So is it mainly because the spot realization or the export was less profitable in last quarter as compared to fourth quarter?

Jayant Acharya: Yes, you're correct. So the prices from February-March to April-May had corrected, as you would have seen internationally as well. So therefore we tactically shifted into the domestic market in these volumes and reduced our export to that extent. In exports, we have focused more on the value-added part like cold rolled, galvanised, colour coated and galvalume etc.

Moderator: Thank you. We will take the next question from the line of Dhawal Doshi from PhillipCapital. Please go ahead.

Dhawal Doshi: Sir two questions. First, sir, is there any element of a Forex gain or something or a translation gain for this quarter as in which would have boosted the consolidated performance, which is…

Seshagiri Rao: There is no Forex gain which has come exceptionally in this quarter.

Dhawal Doshi: Secondly sir, if I were to look at the standalone company realizations on a gross basis from Q4 to Q1, the realizations have moved up by almost Rs. 460 odd. You did mention in your opening remarks, saying that the coated product realizations were quite strong, but that will get reflected in the subsidiary performance. Even in the standalone company we have seen a sequential increase, how did that happen? Is the product mix also coming into play out over there, because what we understand was prices were quite soft in Q1?

Seshagiri Rao: JSW Steel standalone also has Value added products, we have galvanizing and cold rolling at Vijayanagar unit. we have a big presence in Cold rolling as a part of the standalone company. So those prices acted as a buffer for the fall in HR coil and long products.

Dhawal Doshi: Okay. And sir, lastly, what was the benefit of the coal price decline in Q1?

Seshagiri Rao: Q1, $18 per tonne.

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

Rajesh Lachhani: Sir, my question is on the weakness in the HRC prices while long products have remained largely stable. So are we looking at some better demand scenario for the long products than flat products? So that is my first question.

Jayant Acharya: The hot rolled prices basically reflect faster any change in the international scenario. So therefore the international correction in prices between Q4 to Q1 translated itself faster in the domestic market as well. As far as longs is concerned, it is more domestic driven and I think primarily, as you know, April-May-June is a season just before monsoon, where constructions are completed. So long product tends to be more stable and positive during that period of time. And during the monsoon period, the long products stabilizes a little downwards. But this time, because of international movement on steel which primarily started with increased upward pressure on long products in China because of a structural correction in production of induction furnaces in China. The long products started moving up first and it was followed by flat products. So I think in this quarter, we are seeing a positive upside both on the longs and flats, more so in flats than in longs, because it had fallen earlier as I explained.

Rajesh Lachhani: Okay. And my second question sir is on the sound bites we are getting on the acquisition of the distressed assets from JSTL. Sir, you are already on track of your expansion projects. So I'm just trying to understand what happens if we are front runner in one of those acquisitions. So what happens to that expansion projects?

Seshagiri Rao: Expansion project, we have already announced and we are committed and we have started implementing, so that will continue. At the same time, if any value accretive acquisition opportunities arise, we will take a call on that at the opportune time. As regards to the mode of acquisition and method of financing, we will work out the acquisition strategy within the parameters of debt to EBITDA, debt to equity without straining the cash flow of JSW Steel.

Rajesh Lachhani: Okay. So, sir, I understand that the expansion project is the priority compared to acquisitions?

Seshagiri Rao: Priority! it is not changeable. We have already decided to go ahead with the expansion projects. We have already committed and we have started implementing the projects. Therefore, it's not the question of priority. We will continue and will complete the projects

Moderator: Thank you. The next question is from the line of Pavitra. S from Nomura Securities. Please go ahead.

Pavitra S.: So my first question is on the CAPEX that you have spent this quarter. If you can tell us how much was spent this quarter and also what is the guidance for the full-year?

Seshagiri Rao: Our guidance for the full-year is Rs 8,000 crores. Out of the Rs 8,000 crores, the CAPEX was Rs 1,325 crores on incurred basis, it was close to Rs 1,000 crores on cash flow basis.

Pavitra S.: Okay, got it. And with regard to this, you mentioned that the increase in net debt was on account of working capital. So if you can mention how much was the working capital outflow and do you expect to see any wind-down of that over the next few quarters?

Jayant Acharya: We built-up some inventory on account of, let us say finished products and some on account of GST. We had drawn-down some inventory in the March quarter, which we needed to build up for our working purposes. In addition to that, due to GST postponement of purchases especially in the month of June, there is some inventory, which has been built up. We expect that part of this inventory will be liquidated in this quarter.

Pavitra S.: Okay, sure. And finally, just one more question on the net debt to EBITDA and the net debt to equity. It just seems to be trending slightly above the threshold levels that you had previously mentioned of 3.75 times and 1.75 times. So just wanted to understand what steps will you take to bring these metrics back down to threshold levels?

Seshagiri Rao: We are confident that we will be able to achieve production and sales guidance given for this year. Accordingly, we have guided these ratios. So by end of this financial year, we will be within the guided range.

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

Ritesh Shah: Sir my first question is, if you could provide some color on the Moitra coking coal block and the economics of the leases that we have won in Karnataka?

Seshagiri Rao: As far as Moitra coal mine is concerned, we have to make it operational by June 2019. It has permission to mine one million tonne per annum. But if we look at strip ratio, it is around 3 to 3.5 times. So, the actual available coking coal or say usable coking coal per annum quantity will be in the range of 200,000 tonnes to 300,000 tonnes. So, this is not a big quantity.

As regards to the 5 iron ore concessions which we secured in the auctions in Karnataka, the weighted average of the premium payable to the government will be around 90% of the market price. The remaining 10% will beequal to the cost of mining. Therefore, compared to the market price, there will not be any reduction in the overall price. But at the same time, there will be a huge advantage in transportation. We will be able to do better arrangements for transportation either by piped conveyor or through a dedicated rail system. We will be able to reduce the transportation cost. So that is where I think the savings would come. Apart from this, the premium which we are paying over the market price today would also disappear. The premium is almost close to Rs. 600 per tonne over Chhattisgarh prices. That premium will not be there in this price, in the captive mines.

Ritesh Shah: All right. Sir, when you say 90%, is it the IBM, 90% premium to the IBM notified price. How should one look at it?

Seshagiri Rao: Generally, IBM takes an average of the prices declared by various mining companies for their sales in that state for various grades. So based on that, they declare the price.

Ritesh Shah: Okay. I'm assuming it would also include NMDC?

Seshagiri Rao: Yes, it includes NMDC.

Ritesh Shah: Okay. Great. Sir, my second question is on Slide #9. The volume that you have given over there are 3.39 on the bar chart. So I just wanted to understand how to reconcile it?

Jayant Acharya: So you're talking about the quarter one consolidated numbers?

Ritesh Shah: Yes, sir.

Jayant Acharya: As you know that we have started a conversion arrangement with Uttam, where we are supplying hot rolled coils from Dolvi and we are getting that converted into coated poducts and selling that in the market. So there is some stock build-up in the WIP as far as that unit is concerned and there is some stock build-up on account of GST.

Ritesh Shah: Okay, that helps. And sir my last question is, what are the cost saving parameters that we should look at a company level say over next 18 months to 24 months either from change in product mix or anything specific that we are doing?

Jayant Acharya: The change in product mix, I think our focus now is to see that all our value accretive assets we run to the full. So our cold rolling lines, our electrical steel lines, our galvanizing lines in Vijayanagar are all now running at more or less 100% capacity. In the galvanizing space at Vijayanagar, which is actually the galvanneal linethe production of automotive steels have gone up, and that is slowly likely to increase as we go along. In the space of cold rolled and CRCA also, various value-added products are now getting produced at Vijayanagar. Similarly, in the JSW Coated Products' facilities at Vasind, Tarapur and Kalmeshwar, all the lines are being run full. Our efforts are to see that we increase our production of galvalume and colour coated with galvalume substrate, since this is more cost efficient and as well as has higher yield in terms of price.

Ritesh Shah: Sir, my question was from the cost side. Are there any different moves that we are taking besides the brown field and green field expansion that we are doing. And is anything like a change in mix less of blast furnace, more of electric arc, anything from that angle like Mr. Rao indicated about a conveyor belt. I'm more asking from a bottom up angle.

Seshagiri Rao: Yes. Definitely. One is on digital side. Last time I touched upon that we have identified total 40 projects along with BCG, which has the potential to give Rs 430 crores cost reduction. Out of that, projects likely to give savings of Rs 30 crores are under implementation right now. So these projects will be implemented in the next 18 months. We will identify more and more projects under this initiative. So under this initiative, we are moving towards automation of operations, building algorithms and also digitalizing processes to reduce the cost.

Similarly, the other area where we would like to focus is the logistics which is again giving us lot of advantage in terms cost reduction. The 2 focus areas on the logistics side are Idle freight and turnaround time.

Then the piped conveyor which is already under implementation with total project of Rs 650 crores, it will get completed in the next 18 months. With this, we are expecting a significant reduction in our transportation cost of iron ore to Vijayanagar plant. Then, we have also announced the slurry pipeline, we are doing feasibility study to set-up it from the coastal Karnataka to Vijayanagar plant. So that will open-up opportunity for us in case iron ore situation continues to be in the similar manner as we are today. If not immediately in the next 12 months to 18 months' time, we will be able to have more alternatives to increase the supply of iron ore to our Vijayanagar plant from outside Karnataka at a very competitive cost. So there are various steps, which we are looking at on the cost reduction side.

Moderator: Thank you. The next question is from the line of Saumil Mehta from BNP Paribas Mutual Fund. Please go ahead.

Saumil Mehta: Sir my question is with respect to any inorganic acquisition. Now does it fit into our long-term strategy or are they in terms of financial covenant, should we believe that, that will also be in the 3.75x net debt to EBITDA after any sort of financial arrangements, which we have or we have the flexibility to increase that with banks and probably that will taper down over a period of time?

Seshagiri Rao: No. Our effort or our objective or the target is not to breach these covenants including acquisition. So if any acquisition opportunity comes in, we would structure financing in a manner that it does not put undue pressure on JSW Steel's cash flows and the covenants. That's how we are looking at it. So, you are right, we want to maintain this ratio including acquisitions.

Saumil Mehta: Okay. And sir, is it fair to assume that any form of inorganic acquisition will all be in the domestic market, because there were certain news items of we looking at some assets out of India or is that the backburner and first priority would be to look any lucrative inorganic only in India and then probably venture out of India?

Seshagiri Rao: No. We don't rule out overseas inorganic growth opportunities if they come up, particularly in the downstream side. After having seen the trade restrictions that have been imposed by various countries, there is an imminent need for the company to look for manufacturing facilities in the overseas market. Therefore, we continue to look overseas also, as a part of inorganic growth, notwithstanding the opportunities in India.

Saumil Mehta: Sure. And my last question is, with respect to any form of, in terms of a long-term strategy of being integrated in the iron ore part now, number of iron ore options are going to come up in the state of Odisha. Do we believe that, based on your transportation cost and all that it will be feasible to have any acquisitions outside state of Karnataka?

Seshagiri Rao: Iron ore side, we feel that we have more opportunities in India, because a lot of mines are coming up for auction and more will come in after 31st March 2020 when the existing mining leases expire. So we look more for iron ore mine acquisitions in the auctions in India.

Saumil Mehta: I was just referring to between state of Karnataka and any form of acquisition outside of Karnataka?

Seshagiri Rao: Now for Vijayanagar plant, we will definitely look at iron ore mines outside Karnataka also as we are working on slurry pipeline from coastal Karnataka to Vijayanagar plant. So it doesn't make difference whether we own iron ore mine in Karnataka or Odisha.

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

Pratik Singh: I want to know the level of revenue and capital acceptances this quarter.

Seshagiri Rao: Revenue capital acceptances are at $1,265 million. CAPEX acceptances are at $219 million.

Pratik Singh: And my second question, where exactly are we on Dolvi expansion, the Vijayanagar BF-3 or the CRM, because I believe we should be in very early stages here, so could it also lead to some production disruption later the year?

Seshagiri Rao: I don't expect any disruption to the existing production at Dolvi works due to expansion from 5 to 10 because it is a separate unit altogether, of course adjacent to the existing facilities. So Dolvi works expansion to 10 million is not going to disrupt the existing production. At Vijayanagar, as far as the CRM is concerned, there will be some shutdowns for the expansion from 0.9 million to 1.8 million but not in this year. So as of now, we are preparing all the equipments and we will be completing whatever work that has to be done on civil works side. Next year we will take the call on the required shutdown.

Moderator: Thank you. The next question is from the line of Sudhir Dedia from Mirae Assets. Please go ahead.

Sudhir Dedia: Good evening sir. My question is more related with GST. Are we seeing any benefits due to GST in terms of operational and in terms of taxes as well?

Seshagiri Rao: GST is a very transformational tax reform, there are some financial positives and negatives of it. On the positive side, we will be saving CST which we used to pay on interstate purchases. Similarly, on the interstate sales where customers were bearing the 2% CST, that will also not be there. Similarly, in case of branch transfers, earlier we used to reverse the input credit, this is not required in the GST scenario and will have lot of positive impact. On Negative side, if I really look at it, there is some confusion going on the non-GST items like natural gas. So earlier it was procured both outside the state and within the state. Outside the state, we used to pay CST and entry tax and within the state we used to pay the VAT. The VAT used to be 13% and we used to get 9.5% as the set-off. Now post GST, natural gas is not covered under the GST. So the suppliers continue to charge the VAT, but there is no provision for set-off. So that we have represented to the government, we are yet to hear from them.

Sudhir Dedia: If you can quantify both the elements in terms of benefit and this natural gas issue.

Seshagiri Rao: Yes. It depends upon how much gas we procure from each of the states. So quantification we have to work out, but the point remains it is one negative overall. But even after netting out the benefits with whatever negatives that are there, GST give a net reduction on overall basis. That is what is passed on to the customer.

Sudhir Dedia: Okay. So when you say when that is passed on to the customer, to the extent where there is an operational efficiency and to the extent of CST savings, that can be retained by the company, right?

Seshagiri Rao: Retained by the company?

Sudhir Dedia: Because the pricing mechanism on the sales side is very transparent and internationally linked, right?

Seshagiri Rao: No, the spirit of GST is, whatever benefit the company gets, we have to pass it on. Accordingly, this benefit has been worked out separately both positives and negatives. So we worked out, it is in the range of Rs. 500 to Rs. 700 per tonne, we passed it on.

Sudhir Dedia: Okay. And sir, if one has to understand in terms of operational efficiency, in this what we have spoken is more on the financial side. In terms of operational let us say in terms of spread, there are various newspaper articles which says that there is a huge saving on the spread side in terms of time reduction. Do we get benefit out of that?

Seshagiri Rao: We will definitely get that benefit. But for that, we have to talk to the transporters and start negotiating all the contracts. We have started doing that, so it will take time. As of now, it is difficult to quantify that how much benefit will come. As a part of digitization, we are also putting GPS tracking in place for all the outward freight trucks. This will enable us to track the turnaround time taken by them. This will help us to negotiate better with the transporters. So that is what we are trying to do. But at this stage, it is difficult to quantify that, but the benefit would definitely come.

Sudhir Dedia: But if we have to, get us some rough guess, in terms of what can be the range of this benefit on a per tonne basis, if impossible at this point of time?

Seshagiri Rao: No, not possible.

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

Sumangal Nevatia: Just one question remains. I know it is a small contributor, but if you could just elaborate on a turnaround in the US business, the $5 million EBITDA, I think last was witnessed in 2012 when I see volumes also increasing. So, how sustainable is this turnaround and what levels of utilization can we achieve and what further improvements in earnings could we see here? Thanks.

Seshagiri Rao: The utilization of the Plate Mill in the last quarter was 28% and the Pipe Mill remained at around 8%. So with that capacity utilization, we were at $5 million EBITDA in the last quarter. So there is a huge scope for improving the capacity utilization further. After having seen the kind of trade remedial actions taken by the US for a longer period of 5 years and they are also talking about section 232 related investigations and its outcome. So the outlook for the steel industry in the US is looking bright. So there is potential to increase the capacity utilization and to improve upon this EBITDA.

Sumangal Nevatia: Understood. Any specific measures, which has led to this or it's just operational leverage benefit this quarter?

Seshagiri Rao: The order book is improving, that is one. Number two is, in order to improve the operation, we are also contemplating to improve the capability of the Plate Mill, thereby the yields will improve substantially and will reduce the cost in future. So with that, I think there will be large potential in the US to turnaround.

Moderator: Thank you. The next question is from the line of Abhijeet Mitra from ICICI Securities. Please go ahead.

Abhijeet Mitra: Question is to Mr. Rao. So regarding this domestic inorganic opportunities, I think last quarter you made a statement that there is quite a divergence of evaluation opinions amongst related parties regarding these assets. Over the last 2 months, do you see any change to that opinion of the last call or do you feel that similar things exist? And secondly, has the due-diligence process started as in, has the books of accounts being opened to the interested suitors or that process is yet to start and when do you feel the process will start according to you, if you can just throw some light on the same. Thanks.

Seshagiri Rao: No, as you know, the 180 days' time start ticking from the time it is admitted in the NCLT. So some of the companies already got admitted, some are yet to be done. Therefore 180 days is the outer limit plus 90 days that is the limit by which it would be done. Whatever information we are getting from various sources is that the IRPs, wherever they are appointed, will take 60 days' time to prepare information memorandum and also complete valuation for liquidation value for these companies and then call for expression of interest. After that only, data or information will be available to prospective investors.

Abhijeet Mitra: Okay. And between the choice, I know it's a hypothetical question, but between the choice of assets, I mean, since majority of the expansion which you announced is on the flat products side, I mean, will the product profile dominate your optionality or will it be the -- purely be the cost or a combination of these two, I mean, is it fair to assume that you would be more interested towards the long product assets if you choose to look at it, I mean is that the right way to look at it or…?

Seshagiri Rao: As a strategy, we would like to focus more on the flat products going forward. So when we are looking at acquisitions or our organic growth, we will focus a significant portion in the flat and limited presence in the long.

Abhijeet Mitra: And the same applies to the inorganic side also I would presume.

Seshagiri Rao: Yes.

Moderator: Thank you. The next question is from the line of Pallav Agarwal from Antique. Please go ahead.

Pallav Agarwal: Just a question on the hedging. So in the annual report, we could see some contracts on the iron ore and coking coal. So what exactly is the strategy on the hedging part? Do we hedge in the international markets and is there a policy of how much you want to hedge our iron ore requirements?

Seshagiri Rao: Iron ore as you know that we can only hedge only to the extent of imports of iron ore. We import only for Dolvi unit, not for Vijayanagar unless exceptional circumstances arise. So we anticipate what could be the imports for our Dolvi unit, to that extent, we try to hedge as regards to iron ore. So therefore, when our requirement is total 30 million tonnes, maybe 4 million tonnes to 5 million tonnes is the extent of hedging, which we always look to. Then as regards to coking coal, against our total requirement, we have a policy and endeavour to hedge up to 25%, but we are not able to do it because liquidity is not there in the market. Whatever we have done is very, very small.

Pallav Agarwal: Okay, sir. And do we hedge the rupee, the Forex exposure also on this?

Seshagiri Rao: Forex exposure is separate policy as we have been communicating. We hedge imports to the extent of exports by fully hedging both the legs separately, balance of imports is hedged by way of options or by way of forwards which will impact the revenue account.

Kamlesh Bagmar: Sir, one question on the realization part that you have mentioned, that you have been able to offset the impact of fall in prices because of the higher or better mix. Even in the past, we have seen that as and when HRC prices moves up, the gap between the CR or like GPGI that also compresses. So would it be case like going forward, we would be seeing the improvement in HR realizations, but that will not be followed by the equivalent improvement in the CR and other value-added product realization?

Jayant Acharya: Usually in the flat side, you will see if the hot rolled prices let's say go up now, it will reflect on the downstream side maybe with a lag, but it does reflect on the downside. So in this case also we expect the downstream prices like coated or cold rolled products to react upwards with a lag once we increase the HR prices.

Kamlesh Bagmar: Okay. And sir, lastly, like in the cost part, we have not seen any fall in the cost, like say, if you see cost, they have moved up significantly quarter-on-quarter, though scale was lower, but we have seen the cut in the other expenses as well, significant cut in other expenses, like say, we have mentioned that $18 was the fall in coking coal prices, and earlier on Rs. 150 increase in the iron ore prices, but despite that, the cost has gone up sir.

Seshagiri Rao: The cost has gone up majorly in the iron ore side and we have also seen increase in the power cost side on per ton basis. There is an increase in ferroalloys cost also. There are the three items where cost has increased. But you're correct that coking coal prices have come down sequentially. However, that is more than offset by the increase in other costs elements.

Kamlesh Bagmar: Okay sir. But sir, going forward would we see significant fall in cost in like say Q2?

Seshagiri Rao: Coking coal, we already guided for $15/t reduction in the Q2. Similarly, on iron ore side, a Rs. 200 per tonne which was reduced on 1st July, would flow through in this quarter.

Moderator: Thank you. The next question is from the line of Nitin Agarwal from JM Financial. Please go ahead.

Nitin Agarwal: Sir, can you throw some light on the Chile iron ore operations in terms of the profitability? And second, are there any plans to restart our coking coal mines in the US?

Seshagiri Rao: In the case of Chile, it is still under maintenance, it is very difficult to take a call to re-start the mine considering volatility in iron prices from $46 to $75 per ton. Therefore, we continue to maintain that mine. We have no plans in the immediate future to start the mine. As regards to coking coal, yes, we will be starting the mine.

Nitin Agarwal: So right now, is the Chile mine giving any negative EBITDA contribution in terms of the cost? Can you quantify?

Seshagiri Rao: Yes. It is in the range of maybe $100,000 per month.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for their closing comments.

Seshagiri Rao: So, I just want to reiterate that we will able to achieve our guidance of 16.5 million tonnes of production and 15.5 million tonnes of sales for the year. In 2q, there are certain upsides, which will bring down our costs. And because of the monsoon, the water levels have improved. Therefore, hopefully, we should be able to make for the production, which we have lost in 1Q, in this quarter. The last point is, the overall demand situation is improving both globally and also in India. And the domestic prices at a discount compared to the landed cost of imports from China based on the current FOB prices, giving a scope for improvement in domestic prices. So with that, thank you very much.

Moderator: Thank you. Ladies and gentlemen, on behalf of Emkay Global Financial Services, that concludes today's conference. Thank you for joining us. And you may now disconnect your lines. Thank you.