"JSW Steel Limited
Q2 FY2019 Conference Call"

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Moderator: Good day ladies and gentlemen and a very warm welcome to the JSW Steel Limited Q2 FY2019 Conference Call, hosted by IIFL Capital. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anupam Gupta from IIFL Capital Limited. Thank you and over to you Sir!

Anupam Gupta: Thanks Ali. Good evening everyone and welcome to the 2Q FY2019 earnings conference call for JSW Steel. I hand will over to Mr. Pritesh Vinay, Group Head, Investor Relations of JSW to take the call further and introduce the management. Over to you Pritesh!

Pritesh Vinay: Thank you Anupam. A very good evening to all the participants who have dialed in for the second quarter fiscal 2019 results of JSW Steel. We have with us today the management team of JSW Steel represented by Mr. Seshagiri Rao, the Joint Managing Director and Group CFO, Dr. Vinod Nowal, Deputy Managing Director; Mr. Jayant Acharya, Director, Commercial, Marketing and Strategy; and Mr. Rajeev Pai, the CFO.

I am sure you all had the chance to go through the results, the press release and the presentation, which is already being uploaded on the website and the links are in your inbox's by now. We will start with the few minutes opening remarks by Mr. Rao and then we will switch over to Q&A. So with that I will hand the floor over to Mr. Rao.

M.V.S. Seshagiri Rao: Good evening. I welcome you all for the briefing of our performance for the second quarter of FY2019. So this quarter is a very, very important quarter for us because we have achieved some important milestones in this quarter. Our Vijayanagar unit got Deming Quality Award, which is considered in the area of quality as gold medal. So this is a very, very prestigious award in the steel industry as we look at it. Outside Japan, there are very few companies which secured a Deming award. What it establishes is that JSW Steel has established practices, and activities, not only in terms of product and services, but the entire processes are quality oriented with the major objective of serving the customer. That is the objective, which gets established through this award, which we are really proud of.

The second important development is JSW Steel has been added to the Nifty 50 list that is also one big milestone for JSW Steel in its history. The third one, we have completed some acquisitions in the last quarter. One is the Mingo Junction in the USA, we finished the acquisition and we have taken control of the company and we are working on how to turnaround gradually as possible. Similarly, in Italy we have completed the acquisition in the previous quarter. We are working on now to turnaround again as early as possible. As on September 1, 2018 we took control of Monnet Ispat Energy Limited as a part of NCLT process, so we have now planned to turnaround as early as possible over a period of two years by implementing whatever we have mentioned in our resolution plan.

As regards to the operational side, as we have been saying we have committed a lot of expenditure for backward integration and product improvement projects. Our Coke Oven plant at Dolvi and Lime Plant at Dolvi have been commissioned and they are under trial runs and at Vijayanagar we have commissioned our water reservoir and the pipe conveyor. They are also under trial runs, water reservoir we have started filling it up, so in the next summer we will not have any problem for water at Vijayanagar, pipe conveyor will get commissioned in the current quarter fully. For downstream, we have our Tinplate commissioned, which is under trial run. So these are the projects whichhave been commissioned and the balance projects are on track in its implementation. We have spent in the first half of this year close to Rs.4300 Crores on the capex.

There are certain auctions of iron ore mines, which have happened in Karnataka State. We have participated. The premiums were very, very high. There were five mines eventually we could secure one mine, which has reserves of 9.7 million tonnes and it has annual capacity of 0.435 million tonnes. As we have mentioned earlier out of the five mines secured in the first auction, we operationalized two mines, total capacity of 0.7 million tonnes.

So we will produce a complete 0.7 million tonnes in this year. Balance three mines were working on, there are some issues relating to the forest clearances, which we expect they will come in this quarter and we make those three mines also operational. These mines can be done very quickly. So there are six mines, which will aggregate to close to 5 million tonnes of total of captive capacity that would be available to JSW.

Then in case of USA, last time we said we have committed $500 million for backward integration and also for upgrading the existing plate and pipe mill we are happy to say now we received the environmental clearances. So the project now can be taken up at the Baytown in USA.

As regards to the quarterly performance, the guidance, which we have given 16.75 million tonnes of production we are more or less inline with the production guidance. Sales we have given the guidance of 16 million tonnes. Half yearly numbers if you see were slightly lower than our guidance, but we will catch up in the second half of this financial year.

Overall numbers are concerned, the production numbers we have shown a growth of 6% in crude steel and in the sales side what is very relevant to note volume wise, it has gone up by only 1% but our domestic sales volume went up by 11% when India grew by 6.8%. So there is a substantial increase of sales volume in the domestic market, there is one important change, which we have made. Our exports year-on-year have been brought down to 17% versus 26% in the previous quarter. Our sales in the auto industry went up substantially, our share in the south and west market has gone up. These are some of the changes, which we have made in the geographical and product mix that has contributed to better NSR in the quarter.

Net sales realizations year-on-year went up by 25% and quarter-on-quarter it is flat. Cost of production quarter-on-quarter also went up and year-on-year also went up. Because of this cost pressure, quarter-on-quarter you will find our EBITDA was slightly lower than the Q1. In the Q1 we have shown an EBITDA of Rs.12,589 per tonne, in the Q2 it is Rs.12,141 per tonne. This Rs.300, Rs.400 is majorly attributable to the increase in cost, power and fuel majorly is the reason. Crude oil prices went up. Natural gas price is linked to that. So in Dolvi, the cost of production for natural gas went up that added pressure. Similarly, the thermal coal prices were higher refractories, electrodes, where the cost, which could not be absorbed fully in the last quarter that is why the quarter-on-quarter, there is the reduction in the overall EBITDA per ton.

Operating EBITDA for the quarter was Rs.4,802 Crores as against Rs.4,822 sequentially if I compare. So it is more or less flat quarter in the operating EBITDA side. Profit after tax, there is a 170% growth, Rs.2284 Crores on the standalone number.

Our subsidiaries have done quite well from that point of view. Particularly domesticsubsidiary like Amba River 110 Crores EBITDA, Salav has done well and the coated products, the EBITDA was lower than the Q1 or even sequentially, which is at 88 Crores. The main reason for the lower EBITDA in the JSW coated is that even the HR coil prices went up, the same extent the downstream product prices have not gone up . This is one of the reasons why we had a lower EBITDA in the coated products. Otherwise other domestic subsidiaries we have done well.

Overseas US plate and pipe mill contributed US$5.5 million. It is lower than Q1. Q1, we had $11 million wherein the Q1, there was inventory, which was not subjected to 25% duty whereas the steel prices went up in the US because of 25% duty. That's why inventory benefit has come in the Q1. In Q2, we were expecting that we would get exemption on import of slabs, which was not given even though still we are pursuing on that. So that is why we paid 25% duty on the fresh import of slab that has brought down the overall EBITDA to 5.5 million over Q1.

Coal mines in the US again contributed close to a million dollar EBITDA. All these together the consolidated EBITDA increased by 100 Crores, 4908 Crores, why 100 Crores only when we add all these together, there is some drag from the recently acquired facilities in the US and Italy. So it will take sometime to turn around and absorb the fixed cost. We expect the Q4 it will start contributing to the positive EBITDA from the newly acquired facilities overseas.

With that, the profit after tax on a consolidated basis is Rs. 2,085 Crores, which is 150% growth. Our debt as on 30th September, 2018 was Rs. 44,919 Crores so it has gone up relative to March 31, 2018 or June 30, 2018. But major reasons for increase in the debt is Rs.1900 Crores on account of translation losses, rupee depreciated by 11% in the half year. Rs.2700 Crores is amount, which we have put in the working capital. Another Rs.2300 Crores due to various acquisitions that we made in the last quarter. All these three together, there is an increase in the debt. But what is important here is our net debt to EBITDA has come down to 2.35x, in the last quarter even though it is higher compared to June, but you compared to March 31, 2018, it improved over that period.

There are two important decisions our board has taken today. One is how to simplify various subsidiaries we have, but it is not necessary to maintain them as subsidiary in the future. So they have given the approval for a scheme of amalgamation of four of our subsidiaries. One is Dolvi Minerals and Metals Private Limited, Dolvi Coke, JSW Steel Processing Centers and JSW Salav Limited. These four subsidiaries under the scheme of amalgamation will get merged into JSW Steel. In addition to that there is an enabling resolution, which has been approved, authorizing the finance committee to take a call on the rights issue up to Rs.5000 Crores. The timing and the size and the terms of issue will be decided by the finance committee based on the requirement of funds in future.

These are the two important decisions, which I would like to communicate. Going forward, we feel as far as this quarter is concerned, there is a rupee depreciation In global steel prices there is some correction which is happening, but the WSA (World Steel Association) has given a very favorable guidance saying that the steel demand globally remained resilient 3.9% revised the steel demand upwards in the current calendar year. Next year, they have guided excluding China, 2.7% excluding China why I am highlighting is that 2019 they expected zero demand growth in China. Even after that there is a 2.7% growth contributed by other than China. So there are two positive factors with regards to the world global steel demand outlook is concerned.

India, the infrastructure demand expected to be strong, even though liquidity is very, very tight, which can slow down to some extent, the acceleration of demand growth, which we are all anticipating will grow beyond 7%, but that may to some extent slow down, which we are seeing already. Even after that we expect the steel demand in the range of 6% to 7% and the steel prices will be range bound going forward that is how we expect going. Thank you. I will stop it here. If any questions are there, we will be able to clarify.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Anuj Singla from Bank of America. Please go ahead.

Anuj Singla: Good evening Sir. Sir couple of questions, Sir firstly you mentioned that on the subsidiary side there was some drag on the recently acquired facilities in this quarter, possible to quantifying a what kind of an impact it was?

M.V.S. Seshagiri Rao: It was 83 Crores drag is there from overseas subsidiaries in this quarter that has been absorbed in the part of this result.

Anuj Singla: Sir this would be for the full quarter or this is for the portion of the quarter and we should be expecting a high number going into the next quarter, couple of quarters?

M.V.S. Seshagiri Rao: As far as Italy is concerned, two months and the US is one quarter.

Anuj Singla: Sir secondly on the decision on the rights issue like you rightly pointed out on the net debt to EBITDA front we are very well placed, it is not very highly levered, then what is the thought process behind this rights issue, is this building up some kind of flexibility for inorganic acquisition in India or may be on the stressed asset side or just wanted to understand the thought process of that?

M.V.S. Seshagiri Rao: Yes, basically we wanted to create more headroom for the company to accelerate growth plans that is why it is an enabling resolution if you see we have got approval from the board and the shareholders also to do a QIP and also to do FCCB and also to do MCD with warrants and also now rights issue. All instruments are available with us. Based on the requirement of funds we will take a call at appropriate time, except timing is not decided but one point, I would like to make it clear is that to complete our 45,000 Crores organic growth, we do not need any equity including rights. But if any inorganic growth fructifies or if you wanted to take up further organic growth plans, then we wanted to create enough flexibility depending upon of course market conditions, and this is majorly an enabling resolution.

Anuj Singla: Lastly Sir, can you share an update on Bhushan Power and Steel, we got a lot of media updates and it is a bit confusing at this point of time where we are in the process and what is the next milestone we should be looking and in terms of decision by maybe NCLT or NCLAT?

M.V.S. Seshagiri Rao: Based on the court directive, the CoC has asked all the resolution applicants, which are three in this case, to revise their financial offers to improve their financial offers by August 14, 2018. Accordingly, in my view all the resolution applicant including JSW Steel has improved their financial offers and submitted to the CoC. This has been done based on the directive of the NCLAT. Thereafter the plans, which have been submitted again as per the court directives, have been evaluated and then the outcome of that evaluation has been put in a sealed cover and that has been given it to NCLAT for their decision. For the matter is in the court and hearings are going on. We do not know what is in the sealed cover as on date, the next hearing is scheduled on November 1, 2018, so once court decides, I think the covers will be opened and then we will know who is the successful bidder.

Anuj Singla: Thank you very much Sir. All the best.

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

Indrajit Agarwal: Thank you for the opportunity Sir and congratulations for a good set of numbers. I just have one question on the cash outflow and working capital, how should we look at it for the rest of the year, should we expect some of it to reverse in the second half?

M.V.S. Seshagiri Rao: We are not seeing a big reversal of this working capital, because the prices of steel has gone up, so with that the absolute number wise debtors have gone up. Inventory volume wise quarter one versus quarter absolutely there is no increase. But the value wise, it has gone up. So because for rupee depreciation plus prices went up together is demanding more working capital that is one. Number two is, there is very tight liquidity conditions in the market therefore lot of consumers approaching us for extending the credit period. That also has increased debtors to some extent. These two together we have 2700 Crores, so we are not seeing a reversal of this 2700 Crores in the near future.

Indrajit Agarwal: Sure. Sir just one additional question, in terms of steel prices currently, how do see the current prices versus 2Q average?

Jayant Acharya: Q2 prices have been by and large if you see on the flats side there have been flattish in the month of July and August there was a small correction and in the month of September they have increased, so we balanced out. There was some impact on the longs because of seasonal trend. In the month of October, there has been again a small increase, which has happened. So by and large if you increase these two sets it will be overall similar to positive.

Indrajit Agarwal: Thanks Sir.

Moderator: Thank you. The next question is from the line of Amit Dixit from Edelweiss Broking. Please go ahead.

Amit Dixit: Thanks for the opportunity and congratulation for a good set of numbers. Two questions here, the first one is on auto sales on the product mix particularly, so while auto sales were growing 36% Y-o-Y, currently we have seen some weakness in auto, how do you see this auto sales going ahead?

Jayant Acharya: Automotive sales, we have grown at 36% in this quarter, overall in the half year also the growth has been quite good. The growth is happening on two areas. One is the alloy steel long where from Salem we are seeing a good traction from the commercial vehicle side. On the passenger vehicle side, we have got a lot of new approvals for new products, new models especially in the high tensile area, the galvanile area which is also taking a cost shift. To some extent, what you are saying what is the passenger vehicle, there has been a month-on-month drop in the last one or two months maybe seasonality and a little bit of the Kerala impact. So the auto industry is expecting that in H2, there will be able to make up, so we will monitor that but our sense is because of our new approvals because of the alloy steel norms in the commercial vehicles moved well. We should be in the range bound manner of the positive in terms of automotive side. We have done about 548000 tonnes in the Q2. I think we have done about 540 plus in quarter one as well. So we have seen more or less similar kind of volumes in quarter one and quarter two both in spite of seasonal variations.

Amit Dixit: Great. The second question is in other operating income, there is some incentive of 309 Crores post-re-notification of incentive schemes, now how much of it is sustainable or it is totally one time"

M.V.S. Seshagiri Rao: It is sustainable, it is not one time, but here only one point here is earlier when the incentive scheme was operating prior to GST there was a circular, which was issued by the Government of Maharashtra particularly is that incentive amount, can be discounted and pay discounted value to the government, thereby it is not a loan in the books for the company. So that was earlier provision in the State of Maharashtra, today that circular is not there that means 9% VAT, which is applicable. So that 9% VAT when we collect from the customer and it will, we have to collect VAT for the government, we paid to the government and we have to collect VAT from the government, then once it has given a refund to us, we have to repay at the end of 14 years, so the circular paying the net present value to the government, circular were awaiting, it is still to come from the government. In the meantime, as far as books of accounts are concerned as per the Ind-AS account standards, we will account at the fair value of that amount which we have to pay at the end of 14 years. So from that point of view, it is sustainable, but we wanted to take out this liability by paying the net present value. So we are waiting for the circular from the Maharashtra government, which we have been pursuing.

Amit Dixit: Okay so if there any particular range to this or i would be like 7%, 9% of VAT – I mean that kind of a number?

M.V.S. Seshagiri Rao: No, there is no change in this, only if Government of India issues a similar circular as they have done in the past, I do not think there is any issue in this.

Amit Dixit: Okay. Fair enough. I have couple of more questions, but I will come back in the queue. Thank you.

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

Sanjay Jain: My question is on the total cash outflow that you highlighted of 2300 Crores on M&A. I assume you talked about this cash outflow in the first half of this year. And when I total up the amounts that you have mentioned in the press release, there is a gap of 600 Crores to 700 Crores because that amount only totals up to 1600 Crores. So can you help us reconcile this?

M.V.S. Seshagiri Rao: Yes, our investors Relations will be able to tally that number, so it is actually the investments made by us in the three positions, which we talked including the working capital adjustment, so you must have been seen the number what we have paid for acquiring the company. There is a working capital adjustment, which we need to do so the account will go up beyond the acquisition value.

Sanjay Jain: Okay, so this total amount is 2300 Crores in the first half, correct?

M.V.S. Seshagiri Rao: Correct.

Sanjay Jain: Okay. Great. Second question is on capex part, so you talked about 4300 Crores capex, this is the number for the first half, correct Sir?

M.V.S. Seshagiri Rao: Yes.

Sanjay Jain: Now since we have acquired these assets overseas in, so how much additional capex we are looking at and in US, you talked about the Baytown has got an EC to expand capacities, so what kind of capacity addition we are looking at there?

M.V.S. Seshagiri Rao: I think last time we have given all the details about the acquisitions and their capex involved in turnaround, so let us go item by item. Again Baytown for instance we said total 500 million dollar required. 150 million for that 500 million dollar will be funded from India out of its cash flows of the company. 350 million dollar, we will raise debt in the Baytown facility itself. This is how it gets funded. Similarly in the Mingo Junction, whatever amounts we had to pay for acquiring the company have already been done. Then we need $40 million for starting the operations that we already indicated that amount would be funded from India. And the third one is relating to Italy, Italy we needed 55 million plus working capital together approximately 75 million Euro, which we have already invested, so there is not big capex that is required only working capital is required to make them operational because they are ruling mill, they buy the billets and then roll it. The working capital is only required as regards to Italian facility, we do not anticipate any big capex in Italy.

Sanjay Jain: This is a total capex for the plant, but I was more referring to how much you are going to spend in FY2019 or FY2020, year wise breakup if you have finalized?

M.V.S. Seshagiri Rao: Excepting the Baytown facility of 350 million, that is spread over a period of 24 months, not a big expenditure in this year, the majority of which is spread over in FY2020 and partly in 2021, balance we will spend in this year.

Sanjay Jain: One last question, when you track the steel prices and the raw material prices, what we are seeing in the international market is that steel prices are trending a little bit down whereas iron ore and coke in coal prices are actually going up, so as such it is squeezing the spreads, how will this play out for us in coming quarters?

Jayant Acharya: Iron ore and coal, you are right has gone up a bit in the recent past. Historically, in winter season it should actually go down because of China, because of winter season the activity goes down, so therefore the buying goes and the iron ore prices goes down under pressure. Similarly, on coal and coke, the sinter plant and all those activities, but this time it is working in a different direction that is something, which could be temporary, we will have to watch and see, there is no fundamental reason why it should move this manner. As far as yield is concerned, I think again prices have softened marginally. There will basically be factors of uncertainty, risks which have emanated from various emerging economies, trade tensions, currency which have impacted sentiments and impacted price to some extent, but I think it will be range bound because fundamentally the cost of raw material will hold steel prices to a particular level. The other reason that in general the economic growth across regions is still quite good, so therefore the ability to sustain these numbers going forward should be there, it should be range bound accordingly.

Sanjay Jain: Would you like to share coking coal cost as you share most of the quarter last year, I mean how much it is for the second quarter and what increase you are looking at in third quarter?

Jayant Acharya: This Q2 $195 of CFR in India and we expect an uptick on this for October-December to $205, about $10.

Sanjay Jain: Okay. Thanks so much.

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

Pinaken Parekh: Thank you very much Sir. Sir just few questions, the first is on Bhushan Power given obviously it has not yet been finalized, but I am trying to understand, would the company go alone in its bid and its acquisition Bhushan Power or with it look to induct a strategic partner to reduce the leverage from any potential acquisition?

M.V.S. Seshagiri Rao: If you see the strategy of JSW Steel right from beginning in acquiring the stressed assets, is that to keep the stressed asset in an SPV until turnaround happens, after that only we would like to bring it into the fold of JSW Steel. So in the case of Monnet Ispat, we followed same policy, but in the case of Bhushan Power and Steel, we have not identified at the time when we submitted the bid, any party with whom we will collaborate, but efforts if at all will become a successful bidder is to work on similar structures as we have done in the past.

Pinaken Parekh: Understood Sir. Sir just coming back to the net debt question given where we are at 45,000 Crores broadly as of now excluding expectances now from here through March given the visibility that the company would have on the capex plan and keeping Bhushan aside for a moment, if steel prices were to hold out at current levels, would the net debt go up or down over the next six months Sir?

M.V.S. Seshagiri Rao: It is really difficult to say an absolute number that goes up or down, because if you see the first six months the EBITDA is 10,011 Crores. That is the kind of EBITDA which the company has posted and at the same time we have incurred 4378 Crores of capex during this period. Even after that the majority of the capex and all other commitments have been met out of the cash accruals for the company. Whatever debt increases that has happened is attributable to acquisitions or working capital or the translation losses. So assuming a similar situation will continue in the next six months of the year, we will have enough cash generation to meet all our commitments assuming that there are no acquisitions would come in.

Pinaken Parekh: Understood and Sir lastly given that there has been global steel prices or regional steel prices have come off around $50 to $60 per tonne, domestically in India do you think the industry would need to reduce steel prices over the next two to three months, I mean we are hearing of HRC booking from Japan and Korea at 610, 620, which would imply landed price of Rs. 44,000 to Rs.45,000 a tonne, so do you see that prices would need to come off in India?

Jayant Acharya: Actually, if you see the prices from where it was to where it is, the prices in India were at discount to international numbers. Now few corrections given the current currency numbers, the international prices are similar otherwise we will have to discount to the international prices. So I think from that perspective, it does not seem that there will be any requirement to do any correction on accounting.

Pinaken Parekh: Thank you very much Sir.

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

Abhijit Mitra: Thanks for taking my questions. I just wanted to understand the change in sourcing mix for iron ore that would have happened over the last two quarters and between domestic procurements and imports and with commissioning of the conveyor how do you think that changing over the next few quarters and also given the current exchange rates and the global prices and the discounts that you see on account of steel and alumina, do you see the key value in yours for imports vis-à-vis domestic iron ore? That is all from my side.

M.V.S. Seshagiri Rao: See as regards to the availability of iron ore to meet the entire demand today there is no balance because the demand is outstripping the supply so that is a problem due to which JSW has to get from outside Karnataka, maybe from Odisha or imports. Now we have assumed that in this year our captive mines will give 4.5 to 5 million tonnes, whereas that amount is based on today's condition to give 0.7 million tones. Balance 3 mines will become operational by end of this quarter then we will be able to avail the benefit of even getting 4 million tonne from captive mines in end of Q4, then we will reach the target of 5 million tonne what we have planned as per the initial planning. If that is a scenario if captive mines are not getting operational that is category C mines there is no incremental coming in, then the supply will be more or less at a similar level, therefore we have to rely upon outside Karnataka to get iron ore that we evaluate and decide to get from Odisha or imports based on which we take a call in sourcing iron ore. Second question is because of pipe conveyor, will we get the benefit or not, definitely some benefit will come but real benefit we will see in the Q4.

Abhijit Mitra: Given the premium after which you have bidded for of this 2.5 additional 4 million tonne that you are expecting to start, will it be the significant discount for the current price, which is prevailing in Karnataka or would it be at par, so what is your sense?

M.V.S. Seshagiri Rao: Premium at which the mining concessions were secured, I do not think it will give a benefit in the overall cost except in transportation because of the pipe conveyor. The average premium is 90% for these mines plus mining cost if you had I do not think there will be a saving on account of captive mines. But pipe conveyor will definitely reduce the overall cost of transportation but at the same time if you have our own captive mines, it will act as a lever for us to negotiate or buy or get at a better price for the balance quantity we will be buying in the market.

Abhijit Mitra: Okay Sir. And you are maintaining that 20% import mix now or has it changed?

M.V.S. Seshagiri Rao: It goes on changing. It is not constant as regards to Vijayanagar I think now it has gone up above 20%.

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

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

Ritesh Shah: Thanks for the opportunity. Sir my first question is specifically on the P&L side if you could highlight the potential of U.S., Italy and Monnet Ispat and if you could help us with some timelines to reach other goals that you are having over there?

M.V.S. Seshagiri Rao: As far as Monnet is concerned it is a positive EBITDA even in this quarter, but that is not sufficient to cover interest and depreciation as you must have seen the results. But the Q3 and Q4 is concerned, we expect we will be able to start the balance units just to elaborate a bit, what is working today in Monnet is only DRI plant. Balance are not working. What for working we have to first commission that is what we are attempting in the Q3, what is that would like to commission is billet plant, sinter plant, blast furnace, caster and TMT, bar mill. These are units we would like to commission. That is phase 1. Once we do that there will be a good reasonable EBITDA. The second level which we are doing phase 2 is that the project which is stuck that project would like to complete thereby the capacity will go up to 1.5 million tonne. That is phase 2. Then this is phase 3. Is there any possibility to go beyond 1.5? These are three phases we are working for turning around Monnet. So our effort in the Q2, Q3 that is October to December is to commission these units, which were operational earlier that is how we are working on Monnet. Second as regards to the Italian acquisition is concerned, Q3 will be neutral as regards to EBITDA, Q4 it starts contributing to the EBITDA, that is how we are seeing the Italian acquisition. In the case of Mingo junction from December onwards it will start contributing the EBITDA.

Ritesh Shah: Sir is it possible, you quantify specifically for Italy and US operations and how do you see the trajectory going forward?

M.V.S. Seshagiri Rao: Yes, I think this will be able to give more clarity in the next quarter, we are working on now to commission all these units and start operations. So I think more information will be able to give in the next quarter on the overseas acquisitions but what we can right now say is it starts contributing from Q4 to the EBITDA.

Ritesh Shah: Thanks for this. Sir my second question is on US incremental investment, you had earlier indicated that 500 million dollars will only be subject to the exemptions that we receive on imported slabs, Sir is that correct what I recollect or is there any change to that?

M.V.S. Seshagiri Rao: No, we said total $500 million, of that 150 million for upgradation of existing facility, balance $350 million we requested the government of USA to give exemption for two years on imported slabs until new facility comes in operation. Then the indications which we got at that time, once we get all the clearances including tying up of funding, then they would look into this. That is what we communicated. So now we have got environmental clearance, we have tied up the funding. So we can now approach to give exemption.

Ritesh Shah: Sir just two more questions. Sir there are other assets at Monnet Ispat including limestone reserves and there is also iron ore lease Sir what is the status on that and how should one look at it?

M.V.S. Seshagiri Rao: Iron ore leases are very insignificant; I think it is less than in my view 6 or 7 million tonnes reserves. That is also under dispute, therefore dispute means there is some show cause and all those issues going on, mine is not operational therefore we cannot say anything about iron ore mines. As regards to limestone mines, which we have got that is cement grade limestone mines, those mines are linked to again investments in the cement plant. Therefore, that value also today we cannot factor anything here.

Ritesh Shah: Okay, but any scope of this being transferred to JSW Cement or any group company at market basis?

M.V.S. Seshagiri Rao: As on date there are no plans. We have to look at in the future once we complete our medium term plan, which I just mentioned.

Ritesh Shah: Sir just last question, I just wanted to check on the valuations for Dolvi Minerals and Metals Private Limited, I think it is at 109 Crores, it is a very small number but I was just wanted to confirm how we have arrived at this particular cost of acquisition?

M.V.S. Seshagiri Rao: It is based on their valuation report, if you see Dolvi Coke has entered into a take or pay agreement with JSW Steel with their fixed return on equity that is the model, which we explained when we set up this capacity. In order to avoid at that relevant time the consolidation in the books of JSW Steel then this 40% is held by JSW Steel, 60% was held by financial investor that what the structure we follow. But when Ind-AS came in, based on the take or pay agreement, it got consolidated into JSW Steel. Therefore, it does not make any sense for us to continue number one. Number two is this 60% based on take or pay agreement valuation, the equity valuation has been arrived at, that is how the 109 Crores has been paid for an investment of 60 Crores.

Ritesh Shah: Sir I have more questions on this, probably I will take it offline. I will join back the queue for more. Thanks.

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

Bhavin Chheda: Good evening Sir. Sir in the first half capex of 4300 Crores how much would be in India and how much would be overseas?

M.V.S. Seshagiri Rao: This is fully in India.

Bhavin Chheda: This is fully in India, okay and for the full year I think we were looking at 10,000 Crores capex on India, so that guidance remains right?

M.V.S. Seshagiri Rao: Yes.

Bhavin Chheda: Okay and over and above that how much you think in 19 would be the overseas capex?

M.V.S. Seshagiri Rao: Overseas capex $40 million in the case of Mingo Junction and another $50 million in the case of US that is to be done.

Bhavin Chheda: So it is close to 100-odd million?

M.V.S. Seshagiri Rao: Yes.

Bhavin Chheda: Okay and Sir this is the outflow on account of capex and you gave the figure 2300 Crores, we have been paid for acquiring all these subsidiaries in India as well as overseas right, so no other payment is pending to close the transactions?

M.V.S. Seshagiri Rao: No.

Bhavin Chheda: Second thing is regarding the incentive figure, you mentioned that 9% VAT is collected from client paid to government, then again refunded back by government to you and eventually you will have to repay back to the government after 14 years the same figure, right? So you will have to account the NPV in as a liability in the balance sheet side? Am I correct?

M.V.S. Seshagiri Rao: You are right.

Bhavin Chheda: Okay. So what you said is that the Maharashtra Government circular has not been issued yet, but are you accounting for that future lability on NPVs in balance sheet and how much is that account and under which head it comes?

M.V.S. Seshagiri Rao: It comes in the other operating income.

Bhavin Chheda: That is in the profit and loss account and for the lability side which will be payable after 14 years.

M.V.S. Seshagiri Rao: It comes in the unsecured loan in the balance sheet.

Bhavin Chheda: So it will be in the borrowing figure right?

M.V.S. Seshagiri Rao: Yes.

Bhavin Chheda: Sir my last question what was the figure of the revenue in capital acceptances at the end of the September 30, 2018?

M.V.S. Seshagiri Rao: Revenue is 1384.

Bhavin Chheda: 1384 Crores?

M.V.S. Seshagiri Rao: Billion dollar.

Bhavin Chheda: 1.3 billion dollars, okay and capital

M.V.S. Seshagiri Rao: 60 million.

Bhavin Chheda: Capital is 60. Thank you Sir.

Moderator: Thank you. The next question is from the line of Tejas Pradhan from Citigroup. Please go ahead.

Tejas Pradhan: My questions have been answered. Thank you.

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

Sumangal Nevatia: Good evening. Two questions, one continuing on this merger of the subsidiaries Dolvi Coke Minerals, Salav, etc., is there any significant financial benefit from the tax angle or anything, which we should keep in mind?

M.V.S. Seshagiri Rao: They are incidental to merger, there could be some benefits.

Sumangal Nevatia: But nothing significant to discuss right?

M.V.S. Seshagiri Rao: See they are wholly owned subsidiaries.

Sumangal Nevatia: Second question, now this quarter also we have reduced exports and substituted that with better or higher domestic sales, and this I believe has impacted positively on the NSR and next year given that we are very close to capacity and overall absolute terms sales volume growth might just be few percentage points, should we expect this trend to continue in

FY2020 as well and to what extend do we plan to reduce exports, could it be like zero exports and completely domestic sales?

Jayant Acharya: We usually maintain a certain percentage of exports; you will notice historically 10% odd that we maintain. So we have a presence in the markets where we have been for a long time. We may moderate the balance. By and large this should be the number we would like to maintain. The other thing, which we have to keep in mind, is that downstream business is having large portfolio of exports, which will continue to be there, so that is in the coated business so that accounts for a major chunk of your exports. So the moderation happens let us say at the base steel level from Vijaynagar unit.

Sumangal Nevatia: So from current mix of 17% exports, what would be the division in downstream and primary?

Jayant Acharya: It is something you watch on a regular basis because the prices are volatile, the distribution will be monitored and then take a call. But as we said that 10% is something, which we will maintain, so it will move between 10% and 17%.

Sumangal Nevatia: Understood. Thanks and all the best.

Moderator: Thank you. The next question is from the line of Bhaskar Basu from Jefferies. Please go ahead.

Bhaskar Basu: Thanks. I have a couple of questions. Firstly, on the other operating income, just now again want to understand this clearly, how are you exactly accounting for its, so when you get the refund back from the government what exactly flows through the P&L?

M.V.S. Seshagiri Rao: I think this question will be taken offline. How accounting is done whereas tax benefit 9% incentive that would be given by the government where this will be a loan in the books of the company, which has to be repaid at the end of 14 years.

Bhasker Basu: Yes, that is clear. I think to an answer to the previous question you mentioned this is sitting as another liability on the balance sheet, and just to clarify that it is not part of your debt number, which you are giving?

M.V.S. Seshagiri Rao: That will be taken offline, how it will appear in the books.

Bhaskar Basu: My second question is on the working capital increase, just wanted to clarify how much of this pertains to general working capital at the new acquired entities I mean are you kind of acquiring them new need to get some working capital – you ramp up those operations, so how much of it is that initial working capital and how much of it is actually pertaining to your India the organic business?

M.V.S. Seshagiri Rao: This is all Indian operation.

Bhaskar Basu: So the capex numbers, which you mentioned for overseas in addition to that, would there be any additional working capital requirement, which will be needed at these assets?

M.V.S. Seshagiri Rao: Your question is overseas working capital requirement?

Bhaskar Basu: Yes, especially when you start the Mingo Junction and the Italian unit, would you need to infuse some more working capital there or that has all done?

M.V.S. Seshagiri Rao: There will be additional working capital requirement that will need to see to raise money there also.

Bhaskar Basu: Okay. So that is something, which we need to build over the capex numbers, which you have given?

M.V.S. Seshagiri Rao: Correct.

Bhaskar Basu: That is all from my side. Thanks.

Moderator: Thank you. We will take the last question from the line of Kamlesh Jain from Prabhudas Lilladher. Please go ahead.

Kamlesh Jain: Sir just one question on the part of the exports volumes like their exports volumes are down 35% year over year, and given the fact that Europe is almost close with regard to the quota part then even in the Southeast Asia, we are facing problems, so do not we see the case that in India, we need to bring down the prices substantially to offload that additional volumes, which we are getting because of lower exports?

Jayant Acharya: Kamlesh if you see our exports, if you see quarter two of last year to quarter two of this year, yes there is a drop of 37% or so. But again if you see there is requirement like seasonal domestically there are certain issues at the long product side, so our quarter one to quarter two exports has actually gone up at 40%. While the numbers are at 650, 000 tonnes odd, so our ability for us to switch as per the requirements of the market is there. As far as domestic is concerned, the additional volume, which we have brought in, has been brought in areas where the requirement in India and has also facilitated us to enter that market. So not only if you see our investment in terms of our product mix strategy, we have over a period of time enabled products into the market which have been value accretive, so electrical steel has consumed, has been fully consumed, so we are producing full. Our cal lines are by and large fully operation, we are producing full, our galvanizing line is getting fully operational, but the GI lines are running full. So therefore hot cold is getting diverted into consumption in these areas that automatically is reducing our exports. We will continue to be there and it is a part of the strategy.

Kamlesh Jain: Yes, and Rao Sir you talked about that 83 Crores hit on account of those acquired overseas subsidiary so that relates to EBITDA level or it is still the PBT or PAT level?

M.V.S. Seshagiri Rao: EBITDA level.

Kamlesh Jain: Sir lastly like say with regard to Bhushan Power, so you have increased substantial EBIT so what has changed in that particular period though in the Bhushan Steel, we have bidded very low amount there though the quality of assets were far better compared to the Bhushan Power, so what has triggered that particular sharp increase in the bid in case of Bhushan Power?

M.V.S. Seshagiri Rao: We will explain to you the rationale once we are successful bidder because matter is subjudice and lot of ligations is going on. At this stage we do not want to comment on that.

Kamlesh Jain: Okay. Thank you Sir. I appreciate that.

Moderator: Thank you. That was the last question. I now hand the conference over to the management for their closing comments.

M.V.S. Seshagiri Rao: Thank you very much. As October to December quarter is concerned our effort is to meet our guidance in production and sales and also turnaround the acquired units as early as possible, which is the focus, and also get the benefits on the completed projects, which is the third are of focus and meet the guidance of 16 million tonnes of sales and 16.75 million tonnes of production. We continue to work on this and improve the product mix further from here on. Thank you very much.

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