"JSW Steel Limited
Q3 FY2019 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the JSW Steel Q3 FY2019 Earnings Conference Call, hosted by SBICAP Securities Limited. 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 touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Dayanand Mittal from SBICAP Securities. Thank you, and over to you, Mr. Mittal!

Dayanand Mittal: Thank you. Thank you, everyone, for joining in. We have with us the senior management team of JSW Steel. So with this, I would like to hand over the call to Mr. Pritesh Vinay who is the VP Corporate Finance and Group Investor Relations. Over to you, Pritesh!

Pritesh Vinay: Thank you, Dayanand. A very good evening to all the participants. We welcome you on behalf of JSW Steel to the third quarter fiscal 2019 results earnings call. I am sure all of you have had a chance to go through the results, the press release and the presentation, which has already been on the website for a while and the links in your inboxes.

We have with us today the senior 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, CFO. We will start with a few minutes of opening remarks by Mr. Rao, and then we will open the floor for Q&A. So with that, over to Mr. Rao!

M. V. S. Seshagiri Rao: Good evening. Good evening to all of you. As you know, the Q3 was a weak quarter for the steel industry where the prices have fallen and the demand was weak. That were the trends under which these results were announced by JSW.

But what is interesting in the last quarter was India has become the second largest producer, the third largest consumer and the fastest growing consumer of steel. That is one good feature in the overall event which had happened. Even though the world as a whole had produced 1.8 billion tonnes, there is a growth of 4.6%, a significant portion, over 70%, has been contributed by China. So China remains a dominant factor with regard to the steel industry.

But starting from November because of the surplus steel which was looking for market, which is outpacing the growth in demand and also tight financial conditions, escalating trade tensions, all these factors led to weak demand, falling prices and destocking. These are outcomes we have seen starting from November.

If I look at India, India's exports in the Q3 have fallen by 40% and the imports went up by almost close to 8%. But in spite of that consumption there is a good growth of over 8%. But basically, in India, the imports remained a concern, particularly the affiliate countries are exporting more and more to India, so there is a significant growth from Asian countries because their duty is 0%.

In spite of that, JSW Steel production numbers are impressive. We have done 4.23 million tonnes of production in the Q3. For nine months, the overall production was 12.52 million tonnes, which is a 5% growth. It is exactly in line with our guidance of 16.75 million tonnes.

As regards to sales volume, we have done 3.68 million tonnes, which - a decline of around 7% year-on-year and also quarter-on-quarter. If I just to break up further information of the sales volume, we have done extremely well as regards to the domestic sales. Domestic sales volume, we have grown by 15%. We have consolidated our market share to 13.7%, adding to the 12.9% in the previous quarter.

The auto sales surged in the growth of 23% when the auto growth was only 7.6%. Our retail sales have grown, our branded sales have grown, and our value-added special products remained at 54%. So there are a lot of qualities as regards to domestic sales.

But when domestic sales grew by 15%, our overall sales volume number has declined because mainly of exports. As I explained to you, the weak demand globally and also the restrictions that have been imposed by various countries on exports, India is a country where exports fell by 40% in Q3, and the overall, for nine months also, there is a drop in the overall exports from India. That also translated into a drop as regards to the proportion of export sales to the total sales to 10% of JSW Steel.

So with the lower volume and a very strong domestic sale, if I look at realization-wise, year-on-year, there is a growth of approximately 20% in the net sales realization. Even quarter-on-quarter, in spite of all, we are able to maintain our slightly up net sales realizations. The EBITDA per tonne for the quarter was Rs. 12,063 per tonne on a standalone basis. All this translated to an increase in net sales and EBITDA at Rs. 4,438 Crores on standalone, profit after tax is Rs.1,892 Crores.

As regards to our subsidiaries, our US Plate and Pipe mill, the capacity utilization in the plate will improve. Overall, we made $4 million EBITDA. For nine months period, in fact, the overall EBITDA doubled to $20 million, adding just around $10 million in the corresponding period nine months in FY2018.

Similarly, the coal mines are doing well. There is a $2.43 million EBITDA clocked in Q3. Overall, we made a $4 million EBITDA for nine months in the coal mines. The Coated Products made an EBITDA of Rs. 97 Crores; Amba River coke, Rs. 108 Crores; Salav, Rs. 40 Crores; industrial gases, Rs. 15 Crores; and also, our other service unit, Rs. 9 Crores. So this is the EBITDA where we have made. The consolidated EBITDA was Rs. 4,501 Crores, which is 22.2%; and EBITDA per tonne was Rs. 12,441 per tonne. The profit after tax is Rs. 1,604 Crores.

Consolidated for nine months, again, is a very impressive number. The EBITDA is Rs. 14,511 Crores, 53% growth, and the net profit on a consolidated basis is Rs. 6,028 Crores. In fact, whatever amount of net profit we have made in the entire year of FY2018, I think more or less, we have achieved in nine months in this financial year.

The total debt of the company stood at Rs. 46,030 Crores as on 31st December 2018. The acceptances of revenue were $m 1,381 and the capex acceptances are $112 million. The debt to equity was 1.40x Net Debt to EBITDA was 2.32x.

As regards to Monnet, we are operating the DRI plant capacity of 0.5 million tonnes. The pellet plant of 2 million tonnes was commissioned. It was operating at 1.2 million tonnes but then spares were required we have ordered. So in this quarter, we will be able to commission. It can work up to 2 million tonnes. Then we are increasing the capacity of the pellet plant to 2.5 million tonnes. That also gets completed in the next financial year.

In addition to that, another 3-lakhs of production units, which are operating earlier and close to where we started, the central plant, the blast furnace, electric arc furnace and the bar mill. These were commissioned for the Phase 1 and Phase 2 of our turnaround plant we'll try to complete in this quarter. After that, we would like to focus on completing the incomplete projects that is the EAF 2 glass plate mill. That will get commissioned. So the turnaround plan of Monnet is on expected linings to what we have planned.

The other two acquisitions we have made in the Ohio in the USA, Mingo Junction, we are on the ramp-up stage. In each place, so there is around $10 million negative EBITDA. So the next financial year, we will be able to turn around this unit when it starts contributing positively.

In the results, only one point I would like to draw your attention, that is VAT incentives in the post-GST scenario. The Maharashtra government, after GST was introduced, they have announced by way of a notification that whatever incentives they have extended, they will continue to be available at the revised rate of 9% as excess 5% of VAT in the pre-GST scenario.

Based on that notification, we continue to book the incentive benefit in our books of account. But the various state governments have not announced the procedure for placing these incentives for the government. So one by one, the state governments now started announcing the procedure.

So Gujarat state government has already announced. It is on the same lines that it - as it used to be in the pre-GST scenario. On 30th of December, surprisingly, Maharashtra government had issued a notification. As for that notification, the incentives will be available to those companies where the sales are done other than related parties.

So the points are there which we have taken up strongly subsequent to the issue of notification that it cannot be excluded as regards to related parties when there is a value addition. So the incentives are given when there is investment made in the state and when there is a value addition by buying either HR coil in that particular unit. Notwithstanding the related party, the incentives have to be extended to those companies.

Pre-GST, there was a clause that if the trading happens between the two companies, they are not eligible for incentives. So while drafting this new procedure, instead of restricting the disallowance of incentives for trading companies, they extended to all companies of related parties.

So this anomaly, we have pointed out for the government. We are expecting that they will favorably consider our request and issue with appropriate modifications. So pending that, we continue our booking of incentives in the books of account. So appropriate disclosures have been made, but we are reasonably confident that we will get a favorable reply and modifications from the government of Maharashtra.

As regards to capital expenditures is concerned, we are on track, we spent total Rs. 6,570 Crores for the nine months period, and we have commissioned our coke oven battery A and declared commercial production from 1st of November. And the B, coke oven battery B at Dolvi has also started dry run. The tin plate is ramping up at Vasind. The pipe conveyor steel trial runs are going on. So capital expenditures side, we are quite online.

Only one point I would like to highlight here. We have announced one expansion at Dolvi from 10 million to 10.77 million tonnes by increasing the DRA capacity. The environmental clearances have not yet come, so that project is under review right now. So that project, we are not going ahead as on date. Once all the clearances come in, we will again come back to you. The project cost of that project is Rs. 1,375 Crores.

The next point is this Bhushan Power and Steel. Now there is a judgment which has come from NCLAT, put at rest the litigation which was going on. They have advised the CoC to get the successful bidder resolution plan that is JSW Steel to NCLAT for adjudication. So we are expecting that process to commence. If NCLAT issued their clearance in the due course of time, subject to there are no litigations, we will be able to go ahead with the implementation of the valuation plan as and when it happens.

As regards to the outlook for the Q4, we have given the guidance of 16.75 million tonne production. We are confident that we'll be able to issue production guidance. As regards to sales is concerned, we have given the guidance of 16 million tonnes. We achieved 11.46 million tonnes up to nine months. So whatever we are producing in Q4, we hope to really stand back and also reduce the inventory attrition which has happened at approximately 300,000 tonnes. So that is why we make all the efforts to ensure that we'll be able to unwind this inventory attrition. In case there is an issue, I think we caution that there could be a slippage to extent of 2% to 3% with reference to sales volumes.

Even though price has started falling from November onwards, we have seen in the last few days, there is an improvement in the steel prices globally. The increase is almost close to $40 per tonne. This is triggered by the accident which had happened in Brazil because iron ore prices went up as high as $90 per tonne. With that, all the input cost prices have gone up, so that has resulted again in a price increase for the steel products.

After Chinese come back after 11th of this new year, we expect even the demand to pick up because of the stimulus measures within China. Considering these factors and the landed cost of inputs into India, we have also announced an increase in price from month of February.

So with that, this quarter, within Q4, we are making all the efforts to meet our guidance of production and sales numbers by unwinding the inventories that are accumulated in the Q3 and maintain the margins as much as possible in spite of drop in prices starting from November and December and January.

With that, we take any queries or clarifications. Thank you.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Anuj Singla from Bank of America Merrill Lynch. Please go ahead.

Anuj Singla: Thanks for the opportunity Sir. So firstly, I just wanted to get some color on the realizations. You mentioned there have been significant declines in the month of December. So what kind of price decline can we expect on a Q2 basis for the Jan to March quarter?

Jayant Acharya: Yes, the prices declined on the spot market in November and December and some part in January as well. In the last quarter, we basically mitigate the fall in prices by virtue of long-term contracts, which we had in place contractual orders, sales to automotive increased geographical presence in South and West and reduced exports. But the prices have dropped internationally, so therefore there is a play out in the domestic market happening. So we see there could be an impact of nearly Rs. 3,000 to Rs. 3,500 which would play out in this quarter, which would be partly mitigated by cost reduction.

Anuj Singla: Okay. And secondly, sir, on the Bhushan Power and Steel, firstly, is it possible for - when the opposing party to go to a higher court like Supreme Court? Is that an option? And secondly, is there a structure in place for us in case for us in case we want to go ahead with the deal, likely have done some Monnet we took a minority interest? Or we will be taking it on our books, the full asset on the books?

M. V. S. Seshagiri Rao: So first question, yes, the party always has option to offer a fee or to increase offer, one of these two options available to the opposite party. As regards to JSW Steel going ahead and implementing the revaluation plan, we will put this structure in place in a manner at least on the year-end - at the quarter end, there is no need for us to consolidate in the books of JSW Steel. At least that structure is in place, but that we can explain once the revaluation plan is approved by the adjudicating authorities.

Anuj Singla: Okay. And Sir, lastly, this is with regards to the US operations. We have been hearing news regarding expansion of the US capacities and a shortage of graphite electrodes in that market. Is our ability to ramp up operations there also constrained by this? Or do we have venues like some Chinese electrodes which can help us tide over the shortage?

M. V. S. Seshagiri Rao: Yes, I can answer. The electric arc furnace, we have already commissioned at Mingo Junction. We are not facing problem with regard to electrodes. We are able to manage in regards to electrode concern, but the ramping up is taking a little longer time because there is an issue which we have faced in commissioning of this unit is the availability of gases, it is not the availability of electrodes. So the gases are concerned, we have made arrangement with Linde, one of the reputed international gas supplier. But they are to use some pipeline, which is where the right of way has to be given by another steel company. So it took a little longer time than what we had anticipated to get that clearance from them. That is why instead of starting this electric arc furnace in the month of September and October, we could do it only in December, late December. Now we did a ramp-up phase. It is taking time to ramp up. These are the reasons why it took time, not because of electrodes.

Amit Singla: Okay. Sir, lastly, if I may. What is the savings we can expect from the pipe conveyor once it is fully ramped up?

M. V. S. Seshagiri Rao: Basically, the capacity, as we have been saying, is 20 million tonnes. But in this year, there is one small portion which got delayed, that is why the benefit is not coming in this year, but we expect the full benefit of this will come in the next year. At least minimum side, we expect to start with Rs. 200 per tonne.

Amit Singla: Rs. 200 per tonne of iron ore?

M. V. S. Seshagiri Rao: Yes.

Amit Singla: Thank you very much Sir.

M. V. S. Seshagiri Rao: It is Rs. 200 per tonne on the total 11.5 million, 12 million tonnes for next year. And the following year, it was up to full capacity of 20 million.

Amit Singla: Thank you Sir.

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

Sumangal Nevatia: Good evening. So first question is on volumes. Another 7% to 8% decline. Now was this back ended largely in December? Or it was a phenomenon throughout the quarter? And has volumes recovered or stabilized in January? And the last part is, do you see any stress emerging on domestic demand as whether that continues to be robust?

Jayant Acharya : If you see the drop of 7%, which has happened on volumes. It is primarily, by and large, an industry phenomenon that is taking place in most of the parts globally as well as in the domestic market. Weak sentiments, drop in prices, lower-priced imports, liquidity, all coupled together, had an impact. The major part of the drop started in November and December. January numbers are slightly better. The other positive part in January is also the international price has Mr. Rao was also explaining due to certain events that otherwise have picked up by $40. So you see the international export market also have picked up momentum. So we do expect that in January to March, the volume wise movement will be better. Domestic, it is usually seasonally a better quarter. Already, you see the long product market on the spot today in the last few days has already reacted by Rs. 700 to Rs. 800 per tonne upwards. We have also increased our prices in the local market by five months few 1000 depending on products in February in the spot market.

M. V. S. Seshagiri Rao: Even if you look at our export numbers, in the Q2, we did exports of 650,000 tonnes, whereas in the Q3, it came down to 350,000 tonnes. So therefore, even exports, which normally we will do in the Q3, it came down, majorly due to change in the situation globally starting from November, weak demand, weak prices, and weak sentiments.

Sumangal Nevatia: I understand. So what would be your assessment for domestic demand growth in, say, this quarter and FY2020?

Jayant Acharya : 7%, I would say that 7% to 7.5% for next year is something which looks possible on the back of positive spending on infrastructure which the government is doing. The interim budget is also announced. They would have been more outlays on railway spend and infra. Our real estate is also getting some impact that would push that area. Consumption will be stimulated by Rs. 800000 Crores of direct income support, pension and the tax breaks, which are coming in. So we see both from the infra side and consumption side the domestic push back to, so 7%, 7.5% kind of demand could be possible.

Sumangal Nevatia: Understand. Sir, second question is with respect to iron ore prices. Now I just wanted your views on how the domestic balance is appearing because the recent cut by NMDC was a bit surprising given the surge in steel borne prices. So do you see this cost tailwind because of this cut to reverse quickly given the investment price scenario?

M. V. S. Seshagiri Rao: No, there is a lot of supply coming into the market, at least in Odisha. So there are total, I understand, 280 mines which are expiring in March 2020. Not only iron ore altogether, iron ore, bauxite, manganese, altogether is 280 mines. So therefore, all the mining companies, so they wanted to extract as much as possible to the extent of approval in their environmental clearance. That is why if you see even the production numbers, this year, you expect it to be 210 million tonnes. So that is leading to a drop in prices, particularly in Odisha and then resulting in an NMDC reducing the price. So we do not expect in FY2020 this situation, at least in the domestic market changing.

Sumangal Nevatia: Okay. So the given the leases are expiring next year, so the supply intensity will - could further increase. That is what you are saying, right?

M. V. S. Seshagiri Rao: Yes, yes.

Sumangal Nevatia: Understand. All right. Thanks and all the best.

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

Ritesh Shah: Hi Sir. Thanks for the opportunity. Sir, just to refresh your memory, if you can please explain how the structuring for Monnet Ispat was done.

M. V. S. Seshagiri Rao: Monnet Ispat restructuring, JSW Steel holds minority in the equity of the company. The balance is held by private equity firm that is Aion Capital. So it is a joint control that for - there is no need for consolidation. That is his question.

Ritesh Shah: Right Sir. So we have around 25%, 26% stake, right?

M. V. S. Seshagiri Rao: Initially it is 23%, there is an instrument, which is outstanding, convertible instrument. If that is converted, JSW Steel Holding will go from - up from 23% to 27%.

Ritesh Shah: 23% to 27%? Hello?

M. V. S. Seshagiri Rao: Yes, that is correct.

Ritesh Shah: Correct. And Sir, is there some scope or opportunity over here in the structure wherein the stake can be further increased or we might merge the entity into JSW at a later stage after two years, three years, four years?

M. V. S. Seshagiri Rao: Which party has the right to ask for the merger, subject to two conditions complying. That is, the EBITDA of Monnet Ispat should be Rs. 650 Crores and the debt to EBITDA in this company should be 3.5 x. If the two conditions are satisfied, either the party has a right for the merger into JSW Steel.

Ritesh Shah: And sir, this is from which year of operation of Rs. 650 Crores and 3.5x?

M. V. S. Seshagiri Rao: Any year, any one single financial year. If you achieve that, then this is possible to ask for.

Ritesh Shah: Okay, Sir this helps a lot. Sir, my second question is, would it be okay if you can - if you provide some color on Bhushan Power, basically, the rationale behind going for it? And secondly, the structure, what we had for Monett. Do you think it is something broadly similar to what we will have for Bhushan Power so that the balance sheet does not get under any stress?

M. V. S. Seshagiri Rao: A lot of questions you asked. As far as Bhushan Power and Steel is concerned, as I explained in my opening comments, the approval of NCLAT has to come for the resolution plan. Thereafter, assuming that there are no further litigations, it can be implemented. So we have a structure in place. As you are all aware, we have been sharing with you that the bidding has been done JSW and its whole name, JSW Steel and its whole name. Subsequently, we wanted to add private equity as a partner which the CoC was not willing to accept that. That is why as on date, we have to implement as JSW Steel and complete, if at all we are successful bidder and we already implement the revaluation plan. Thereafter, our opportunities we hope to explore or to bring in a new partner. That is why our effort is when we are doing the transaction before another quarter with respect to the quarter that there will be a structure which will enable JSW Steel not to consolidate. That is the kind of moves we have in the Bhushan Power and Steel.

Ritesh Shah: Okay. Sir, last question, Sir, how should one look at the Duferco transaction which has been spoken about cash-for-steel prepayment. I think we did something similar a decade back. Sir, if you can explain the terms and how does it work, it will be quite useful.

M. V. S. Seshagiri Rao: No, it is a normal transaction which we have done three times earlier. We have done one-year transaction. We have done a seven-year transaction. It is an advance which will come from the prospective buyer, a long-term advance under a commercial contract of commitment to export steel. Under their contract, the advance received, along with the interest thereon, has to be paid by supplying the steel products at the prevailing prices. So these prices are agreed in advance. So in advance, in the sense at the beginning of the quarter or months as the case may be. At those prices, so much of quantity will get exported. The value of that export will get adjusted towards the advance. The transaction, which is getting contemplated, is a long-term contract.

Ritesh Shah: Thank you so much for the answers Sir. I will join back to queue.

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

Amit Dixit: Thanks for the opportunity Sir. My first question is on the iron ore and coking coal cost, so what cost went in the P&L in this quarter and what costs do you expect in the current quarter?

Jayant Acharya: Coking coal we had last time guided that quarter two we had a $195/t dollar blend coke in coal say into our plant and we have had a similar number in quarter three, although we expected that quarter three numbers will be higher but because of some drop in between, we managed to maintain at similar levels. Quarter four the impact will come in with a lag because of a higher price which paid out in October, November. So quarter four we expect about 10 dollars more or so to be about 205 coking coal.

Amit Dixit: And what about the iron ore Sir?

Jayant Acharya: Iron ore I think as a blend we have not been giving any detailed numbers because plant wise, unit wise, it is different. But investor relations can help you with whatever details you need.

Amit Dixit: No problem Sir. The second question is with respect to the ramp up at US and Italian subsidiaries, so in the current quarter while we saw EBITDA loss to the extent of 10 million dollars, first of all does it include any start up cost and secondly what kind of sustainable EBITDA per tonne you expect from these subsidiaries and the ramp up plans?

M. V. S. Seshagiri Rao: Yes you are correct. There are some startup expenditure, which is included here that is one. Number two is capacity utilization is very low. Fixed cost are high that is why the EBITDA is negative, so ramp up will take time as I explained in my opening remarks I think in the next financial year both the units will contribute positively to the EBITDA.

Jayant Acharya: Just to give you a little bit color, in Italy all the three that are rail, wire rod and bar mill, all the three mills have been started. The latest mill, the bar mill has started in the month of January. We expect these products to get absorbed in the local market, approvals take time, so the ramp up will go mostly into the next year and that should be taking the Italian operations into a higher volume. We have also recently got railway tender from the Italian government which is for about 180000 tonnes will be for two to two and a half years, which is currently under supply. As far as US is concerned again the ramp up and I think sentimental impact which came in because of the drop in prices. Seasonal downturn because of the winters, electric arc furnaces ramp up which got delayed, these have resulted in a slightly delayed volume response. Quality is getting accepted. People are recognizing that quality over the last two to three months and the HSM has improved. So we should get again better results as we go to the next financial year.

Amit Dixit: Great Sir. Any possibility of giving revenue numbers for these two units, you have given EBITDA?

Jayant Acharya: Not as yet, I think in the ramp mode it is difficult to connect.

Amit Dixit: Fair enough. Thanks so much.

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

Sanjay Jain: Thanks. I have two questions. One is on the status of captive iron ore mines and second question is on acceptances. What are the acceptances at capital account and the revenue account?

M. V. S. Seshagiri Rao: Acceptances on revenue account $1381 million and capital account $112m.

DR. Vinod Nowal: Regarding captive mines, we got six mines in the auction. As we speak three mines are in production and we are trying to operationalize one more of the six mines by next month. We expect to achieve exit rate of 3.5 million tones in FY2019. Next year we should have production of 4.5-5 million tonnes from these six mines.

Sanjay Jain: When you say this year you are talking about FY2019 right?

M. V. S. Seshagiri Rao: Yes.

Sanjay Jain: And how much we have got already in up to December, I mean basically what is the volume in four quarter in a way?

M. V. S. Seshagiri Rao: How much. Our investor department will give the information, because these three mines which are operation that capacity is 2 million, okay. This 2 million within this financial year we can do entirely so that will come. After that we are planning to start two more mines, with that the number will achieve. So this 2 million tonne which we have supposed to get from these three mines, we will give you the number.

Sanjay Jain: Thank you very much.

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

Pinakin Parekh: Thank you very much Sir. Sir my first question is on steel prices. You mentioned earlier in the call that QoQ decline of Rs.3000 to Rs. 3,500 per tonne given what has happened in December and January, so my question is does this assume the steel prices stay at these levels for the next two months or does it bake in some kind of steel prices increase once China comes back into the market and given the cost push that we have seen?

Jayant Acharya : Steel prices have already bottomed out and internationally prices have started moving up. In US, Europe, and China we have seen prices in the range of 40 dollars going up that is number one. Number two in the long product market in the domestic, in the last few days, we have again seen prices move up. So we are seeing a bottom out of steel prices and prices correcting to some extent both internationally and domestic. Domestic because of the lowest export out of India, and because of they have got supply demand equation getting skewed with imports coming in. there was an inventory overhang which most of it has corrected I think as the customers end by now, so we expect given inventory restocking demand along with better pricing sentiments seasonally to kick in at this quarter.

Pinakin Parekh: Sir if domestic steel prices were to rise from here assuming Chinese HRC export prices rise before the Brazil accident, then will it be favor to assume that the actual QoQ ASP decline is lower than the Rs. 3000 and 3500 per tonne commented earlier?

Jayant Acharya: So it is something which means to be seen as we play out on the prices between February and March, it is possible that this could be some positive impact on this.

Pinakin Parekh: Thank you Sir. Sir my second question relates to Bhushan Power and JSW, I mean you mentioned earlier that while CoC was not keen to have partner, once JSW were to acquire the asset, it will look at structures wherein it need not consolidate, so Sir my question is why would not JSW Steel look to consolidate Bhushan Steel 100% into its own balance sheet, given that Bhushan Power would require capex to ramp up capacity and hence would require more investment, so I am trying to understand Sir what is the priority of JSW to acquire and keep the asset 100% or to acquire and bring in partners and reduce the stake?

M. V. S. Seshagiri Rao: No, if you see the JSW steel past track record we have kept the assets in a separate company until turnaround happened, then we bought into the fold of JSW steel, starting from 2005 that is how we have followed. Today, we have a large organic growth plan where the capacity is going up to 24 million tonne. There is a lot of expenditure is involved, capital expenditure is involved and at the same time Bhushan Power and Steel is reasonably a big asset. So we would like to keep it in a vehicle until turnaround happens. Thereby it will not block our future plans either organic or inorganic; we will continue to grow the way we have grown. So just to have that opportune window open for us, so we are keeping Bhushan Power and Steel also in the similar structure like Monnet as and when it happens.

Pinakin Parekh: Sure Sir and Sir lastly net debt has gone up by 8000 Crores on YTD basis Sir, if we keep Monnet and Bhushan Power aside for a moment, Sir how do you see this number trending over the next two to three quarters. We have a capex pipeline that are committed to, we have recently made acquisition 100% in JSW and given where steel market is should this number increase further from here?

M. V. S. Seshagiri Rao: Our effort is not to focus on the absolute number that is why we have been guiding about relative ratios, so we are quite headroom as regards to the overall ratios are concerned. The slippages in the overall number is concerned in this year is majorly attributable to working capital more money we have to put in the working capital, that is why there is an increase in the debt. So our effort is not to increase but any event of this nature either due to increase in this raw material and steel prices or due to accretion of inventory in some quarters, there could be an increase of this nature. But whatever we have guided that 3.75 and 1.75. we will be well within those norms in spite of the organic and inorganic.

Pinakin Parekh: Understood. Thank you very much.

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

Indrajit Agarwal: Thank you for the opportunity. I have two questions. First in light of the recent floods in Australia, do you see any disruption in our coke in coal availability or how do you see the prices move?

Jayant Acharya: In the recent last week or so, there has been some disruption in Australia. As of now, we do not see that impacting us immediately. We are watching the situation and will have to revert. Otherwise there are sometimes the China is slowing down a bit of the Australian purchases. To some extent that will also need utilize the impact from Australia.

Indrajit Agarwal: Thanks. Secondly our other expenses have remained elevated at least for the last three to four quarters, so when Mr. Acharya talked about cost saving initiatives, is it more on the other expenses side what exactly are we doing and what could be the quantum of these initiative?

Rajeev Pai: The initiatives which we have taken locational wise if I see in the case of Dolvi the major initiative is this coke and plant commissioning, so in that it is 0.75 x 2 two batteries, 0.75 is already commissioned commercial productions started on November 1, 0.75 is ramping up second one. So today we have buying the coke in the market, so that we need not do in future. As you know the landed cost of imported coke, buying coke in the market, vis-a-vis captive coke there is a Rs.4000, Rs.5000 per tonne difference and on the one million tonne we have able to save that type of money, the 400 Crores to 500 Crores per annum. That is the saving from coke alone. Similarly we have converted our live plant which are there at

Dolvi, from coal firing to gas firing so that will save lot of cost and improve productivity and we have also increased at the capacity of the live plants where we were buying calcine lime earlier, now we need not buy that in Dolvi. The next point in Dolvi where we are achieving the cost saving is that the coke oven and gas now we are using in a big to replace the natural gas so that reduction in the cost is happening at Dolvi. These are three areas where we are getting the benefit. In addition to that one very important change which we are doing at all location, is to increase the input of PCI in the overall fuel consumption so we are reducing the coke and increasing the PCI that is done across the locations both Vijayanagar, Salem and Dolvi that also reduces the cost. Pipe conveyor as you know that benefit will come from the next year onwards. There are lots of measures which we have taken to reduce the cost.

Indrajit Agarwal: Thanks. That answers my question. Thank you so much.

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

Bhavin Chheda: Good evening Sir. Sir regarding the VAT refund has the state government both Karnataka and Maharashtra paying it in time and what has been the outstanding number from the government on this account and continuation as you said that there is a change in policy with the related party transaction they are not including it as a part of the VAT refund, so is this prospective effect or retrospective effect?

M. V. S. Seshagiri Rao: As far as refund of VAT is concerned that is before July 1, 2018, those are coming in regularly. After July 1, 2018 when the introduction of the introduction of GST happened, so these refunds are not coming, so they have not announced the procedure for claiming refund, so one by one states are now declaring the procedure for refunding the incentives. As regards to Karnataka they have not yet announced, only Maharashtra is announced, in that this problem has come, it is December 20, retrospective effect, retrospective from July 1, 2017, but as I explained to you that in the drafting their intention is to exclude the transactions of trading between the related parties. Instead of blocking that they said all the relation party transactions are excluded so I think that will get corrected in our view.

Bhavin Chheda: So this entire VAT refund post GST from July 2017 to December 2018, which is almost like 18 months is still outstanding receivables from government and would be standing in your loans in advances?

M. V. S. Seshagiri Rao: That is correct. It is outstanding. There is amount approximately 1200 Crores.

Bhavin Chheda: So 1200 Crores is standing in our balance sheet is that what you are saying?

M. V. S. Seshagiri Rao: Right.

Bhavin Chheda: Okay that is also the one reason why your working capital has been going up for last two, three quarters right?

M. V. S. Seshagiri Rao: Right.

Bhavin Chheda: Okay and regarding the overseas entity, you have shared the number of losses for US and Italy, what would that number for nine months? Acero and Aferpi any nine months number in the accounts at the EBITDA loss level?

M. V. S. Seshagiri Rao: It started only recently Bhavin. I think it is 14 million at Italy.

Bhavin Chheda: 14 million in Euros?

M. V. S. Seshagiri Rao: 14 million Euros in Italy cumulative for nine months.

Bhavin Chheda: And US would be?

M. V. S. Seshagiri Rao: US is same, US we will be started only very recently.

Bhavin Chheda: Thank you Sir.

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

Raashi: Just coming back pricing, you have indicated that JSW has taken some price hike, is that number one across board as a long and flat stores first. Second is how prices today versus the import priority prices are for free trade agreement countries?

Jayant Acharya: Yes, so we have in line with the movement of prices internationally. Prices have gone up by by $40. In India we have taken a small hike in the month of February in the vicinity of let us say Rs.750 on the average and both for the flats and longs. In the longs market also in the domestic we have seen prices moving up in the recent past to this level. So markets are absorbing this kind of an increase. As it goes along into the month of March, we will be monitoring how the international market and domestic markets move and then we will be looking at suitable price corrections wherever required.

Raashi: Sir just to understand this right at currently the Indian prices would be at a slightly premium to import parity on the free trade agreement countries at least with Japan and Korea?

Jayant Acharya: See because this $40 has now moved up, so the prices of Japan and Korea delivered to the customers vis-à-vis domestic that is not much of a domestic premium, maybe it is marginal.

Jayant Acharya: Okay and just one more question you had indicated that this 3000 and 3500 correction that we seen in the quarter could be offset in the part by lower costs. Are you referring to the iron ore costs or is anything else as well?

Jayant Acharya: Just to clarify this point, in the month of November and December spot prices had gone down. But in the last quarter, we have mitigated that various means which we have explained to you, so therefore some part of that drop is going to play out in this quarter for us. However, I think the large part of this would be mitigated by various cost initiative as Mr. Rao was explaining. In addition to that the iron ore prices in the domestic market have also moderated, I think a larger part of this drop in prices will be made up by saving cost.

Raashi: Thank you.

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

Kamlesh Jain: Thanks for the opportunity Sir. Sir just one question on this incentive part for related party transaction, so would it be fair to assume that if those all facilities would have been put up in a one bucket then those incentives would not have been available to us like Amba River, coke and like coated products and all that?

M. V. S. Seshagiri Rao: Sale of finished good will have, if you look at, it will be the same. For instance, HR coil let us say I am selling Rs.40000 and then galvanized coil sale we are selling at Rs.45000 per tonne, you will get increased to Rs.45000.

Kamlesh Jain: Yes but like say the Amba River coke selling coke to the like your Dolvi unit then in that interim product you are taking incentives but those would be cut if this particular provision gets implemented?

M. V. S. Seshagiri Rao: No, the incentive is not linked to the structure of the company. Incentive is linked to total investments made. For instance, when we make investment in galvanizing and physically making investments for setting up of that factory, so to that extent I have entitled to get the incentive. So the question is that the intention is not to take away the incentive, they want to take away the incentive where there is no corresponding investment on the ground. In this case, there is an investment in both the cases, there is a value addition happening.

Kamlesh Jain: Sir lastly this 1200 Crores is only related to the related party transactions or it is the total incentive in terms of total GST incentive like say including both related and the nonrelated party?

M. V. S. Seshagiri Rao: Both together.

Kamlesh Jain: Both together and lastly Sir on the iron ore part like lot of mines are going to be auctioned in Odisha, so what would be the planning of JSW Steel bidding for those mines which would be far of our plants and the in terms of logistic issues as well, so what would be the plan going forward for those set of mines which have been under auction?

M. V. S. Seshagiri Rao: Dolvi even today procures significant portion of their iron ore from Odisha therefore we will actively participate in the auctions in Odisha, either for Dolvi or to supplement Vijayanagar in Salem.

Kamlesh Jain: Lastly Sir with the mines which are coming in auction, like say 3 million tonne of new mines which would come auction which are operational now in Karnataka and would get expired by 2020 so those would also come for auction so in total out of say, Karnataka's requirement, how much would be met through these captive mines in percentage terms?

M. V. S. Seshagiri Rao: Karnataka the mines are located in and around 20 km so therefore we wanted to have if possible 100% captive mines. So we will continue to participate as regards to Vijayanagar particularly in Karnataka and almost all the auctions where it is viable. Small mines capacity which is very, very small for us to operate, only those mines we are leaving, otherwise everywhere we are participating in Karnataka.

Kamlesh Jain: Great Sir. Thanks a lot Sir.

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

Pallav Agarwal: Good evening Sir. Sir just had a question on Bhushan Power, media reports have mentioning of 19000 Crores was what would be our investment in that so this is include the equity contribution or the payment, operational creditors, or we could end up paying more on account of that?

M. V. S. Seshagiri Rao: We will not able to comment on the total bid amount or anything. It is not public yet so once we get the approval of NCLT for the resolution plan, then I think we will share all the information whatever is required.

Pallav Agarwal: Okay so there could be an additional equity contribution that can happen?

M. V. S. Seshagiri Rao: I have no comments on this.

Pallav Agarwal: The second question was when we look at the consolidated EBITDA, I would be eliminating all these intercompany sales from Amba River coke, JSW Salav?

M. V. S. Seshagiri Rao: Only the stocks, which are unused. Only profit on those stocks will be eliminated.

Pallav Agarwal: Okay so other portion will be still flowing through on our consolidated EBITDA?

M. V. S. Seshagiri Rao: Yes.

Pallav Agarwal: That is it.

Moderator: Thank you. The next question is from the line of Vikas Singh from PhillipCapital. Please go ahead.

Vikas Singh: Good evening Sir. Sir, I just want to understand that in your opening remarks you said your realizations have been protected by auto segment also. So what portion of that would account is actually getting re-priced in the next quarter or when it would be re-priced at a lower price? So the contract is in negotiation what portion would be coming in the next quarter?

Rajeev Pai: Automotive accounts for about 16%-17% of our domestic sales. The negotiations for the automotive for this half have also been a little delays and it is majorly going to kick in this quarter. The re-pricing of contracts will happen only from April 1, for the next half. That is from April 1, 2019 to September 2019.

Vikas Singh: Okay and Sir secondly in Bhushan Power, like you said that we do not want to consolidate but as per the CoC we has to give the cash from our books, so how is the plan to refinance that debt and for that bridge finance how long that 19000 or whatever the amount would be say in our JSW book?

M. V. S. Seshagiri Rao: This we already explained. First JSW Steel has to complete the transaction, thereafter in that quarter in which the transaction gets complete so we will have a structure to enable consolidation is not required. That is how we are structuring the transaction. How it will be done, what is the structure, this we can explain once we are the successful bidder, and we have the resolution plan approved.

Vikas Singh: But it is safe to assume that some portion of the debt initially we have to put from JSW that got inflate our overall debt even if we are not consolidating?

M. V. S. Seshagiri Rao: That depends on the relevant time whether we have sufficient money available to do it or we need to raise debt further, so that will be able to say only when the transaction comes to close.

Vikas Singh: Lastly if I missed this, In US steel price other players are talking about a great outlook and all that but our plate and pipe mill still is lagging somewhat in terms of the utilization, so any comment on that?

M. V. S. Seshagiri Rao: The mill we were revamping whereby the quality and the costs come down drastically. So it is on the way. Number two is melting and manufacturing within the USA has weightage in terms of getting orders from the government, so that is why the backward integration is happening so it is a matter of time that there will be a big turnaround in the US plate and pipe mill but even then if you look at the numbers the last year we have got just around 10 million per nine month wherein this year we have posted 20 million dollar, which is almost double and the capacity utilization in the plate mill at least has gone up, it is 38% capacity utilization in this quarter.

Vikas Singh: Okay. That is all from my side. Thank you for taking my questions Sir.

Moderator: Thank you. The next question is from the line of Ashish Jain from Morgan Stanley. Please go ahead.

Ashish Jain: Sir my question was again to Bhushan Power whatever structure you are talking about I assume it lead to a decline in our equity interest in the entity?

M. V. S. Seshagiri Rao: Yes, both once equity interest will decline, the requirement of funds also will decline, both will happen.

Ashish Jain: Okay. Find Sir. That is it. Thank you so much.

Moderator: Mr Parekh your line is on talk mode, please go ahead.

Sanjay Parekh: Just one small clarification, once you acquire Bhushan Power the IBC allows you to sell down, right that is not the problem as per the regulation?

M. V. S. Seshagiri Rao: As per the regulation sell down is prohibited only to 29A disqualified people otherwise there is no issue.

Sanjay Parekh: Okay. Thank you very much. And best wishes. Thanks.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I would like to hand the conference over to the management for closing comments.

M.V.S. Seshagiri Rao: Thank you very much. We are making every effort to meet the production guidance that has been given for FY2019 and also make every effort even though we have given a caution of 2%, 3% lower sales volume achievement with reference to guidance, to reduce our inventory and meet our guidance for sales. We are also making every effort to preserve the margins by reducing the cost or changing product and geographical mix, with that we are making all the efforts that are required and our capex plan is on track. Thank you very much.

Moderator: Thank you. On behalf of SBICAP Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.