"JSW Steel Q3 FY2018 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the JSW Steel Q3 FY2018 Earnings Conference Call, hosted by Kotak Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. 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. Abhishek Poddar from Kotak Securities. Thank you and over to you Sir!

Abhishek Poddar: Thanks. Good evening everybody. This is Abhishek from Kotak Institutional Equities. We have with us senior management of JSW Steel. It is a pleasure for us to host this call. I now hand over to Mr. Pritesh Vinay from JSW Steel. Pritesh over to you!

Pritesh Vinay: Thank you very much, Abhishek. A very good evening to all the participants. Sincere apologies for the late start due to cascading of media interviews. 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, our Director Commercial and Marking and Mr. Rajeev Pai, the CFO. I am sure all of you would have had a chance to go through the results and the press release and the presentation, which hve already been uploaded on the website and the links are in your inbox. So our formats are simple. We will start with the few minutes of opening remarks by Mr. Rao and then we will open the floor for Q&A and we will try and wrap it up in time for everybody. With that I will hand the floor over to Mr. Rao for his opening remarks.

Seshagiri Rao: Good evening. I welcome you all for this briefing of our Q3 financial performance. We feel that global economy is on a rebound and there has been a complete shift in the sentiment towards commodities, particularly steel. The steel industry is expected to do better in the year 2018, particularly due to demand that would come from emerging economies where the investment is expected to happen in infrastructure and also the US tax cuts is expected to accelerate the growth in the US. So they augur all well for the steel sector.

As far as India is concerned, we have definitely seen an improvement for the government-aided projects – the demand is picked up. If we see nine-months of the year, total crude steel production went up by 4.6% and demand went up by 5.2%. Imports remain a matter of concern. It has gone up by 12% in the first nine-months. What is interesting in analysis of imports is that the coated product imports went up by 107% and color coated products imports went up by 250%. We have been bringing to the attention of the government the fact of increasing substandard import of color coated products. However, overall positive as the demand has started looking better in India.

In this context if I look at JSW Steel performance it is the highest every production, highest ever sales volume, highest ever EBITDA, and highest ever profit after tax. The crude steel production was 4.11 million tonnes, which is 7% growth year-on-year and a 4% growth sequentially. What is very interesting here is the sales volume. Sales volume was 3.97 million tonnes on standalone basis, which is a 9% growth year-on-year and 1% sequentially and on consolidated basis the volume was 4.03 million tonnes, which is 12% growth year-on-year.

I can identify two factors, which has driven this volume of growth – one is exports. Our exports year-on-year went up by 56% and sequentially it went up by 14%. The exports in the last quarter were 1.19 million tonnes and for the entire nine months it was 3 million tonnes. In the last quarter it was 30% of the total volume of sales.

As I mentioned to you that demand for long products really picked up in the last quarter. It was 23% growth in the long products on year-on-year basis. Sequentially also there was a growth in the long product sales. So, increase in long products volume due to demand growth and higher exports are the two factors that have made us achieve a growth of 12% in the volume of sales. Overall steel prices, because of various factors – either cost-push or pickup in demand – went up by 26% year-on-year and on quarter-on-quarter basis it went up by 8% globally. JSW Steel has achieved a blended NSR increase of 14% year-on-year and 5% quarter-on-quarter. There were pressures on the cost side also – increase in iron ore prices, increase in coking coal prices, refractories, electrodes, and ferro alloys etc. Even after this cost increases, we could contain the cost increase to the extent of 13% year-on-year and 1% quarter-on-quarter. The EBITDA on standalone basis was Rs.8991 per tonne, which is 21.7% higher year-on-year and on quarter-on-quarter there was 2.2% growth in the EBITDA margins. All this together our operating EBITDA is Rs.3573 Crores on standalone basis.

Our subsidiaries: if I look at Coated, it posted an EBITDA of Rs.89 Crores for the last quarter. It was subdued in the last quarter, as we had taken a shutdown of two of our galvanizing units for the purpose of ramping up the capacity, due to which there was 80000 tonne impact in the last quarter. We have restarted. After restarting, the overall capacity of the galvanizing unit at Tarapur is going up by 75000 tonnes per annum. So there will be incremental volumes that would come in.

Number two is in the last quarter the HR coil prices went up whereas the prices of coated products took some time to catch up. That is why our margins also were under pressure. These two factors together led to a lower EBITDA in the coated products, which we expect to pick up in Q4. For Amba River Coke, both coke oven and pellet plants worked at over

100% capacity. It posted an EBITDA of Rs.97 Crores. Salav unit is doing well. It posted an EBITDA of Rs.40 Crores. Our overseas operations, US Plate and Pipe mill, looks far better than what it was in the Q2. Capacity utilization went up to 24% for Plate mill and to 11% for Pipe mill with a positive EBITDA of 3.86 million comparing to sequential EBITDA of 1 million in the last quarter and a negative 4.36 million in the previous quarter of the last year. So, there is a swing of almost close to $8 million in our US operation. Because of this good performance from our subsidiaries and associates, our consolidated numbers look better. Our revenues went up by 17%. Our operating EBITDA on consolidated basis was Rs.3851 Crores, which is 37% growth.

Then there are two important items, which I would like to highlight. One is exceptional items of Rs.264 Crores. We have made a provision towards our investments in Chile and also impairment of goodwill. We have surrendered one of the mines in Chile because it is very unlikely we will be able to open that mine in the near future. So, we have made provision to the extent of Rs.264 Crores towards the mine, which we surrendered.

At the same time, we also got a benefit of the tax write back in the US where the tax rates have been brought down from 35% to 21%. The deferred tax liability that we have created earlier for the past period, at a rate of 35%, now has been restated at 21%. So, we have written back the differential tax benefit to the extent of Rs.572 Crores. The net impact on account of these one-off items is Rs.377 Crores on the net profit on a consolidated basis. The profit after tax was Rs.1774 Crores at a consolidated basis, which is higher by 148%. If I make an adjustment by Rs.377 Crores for these two one off items, my normal profit after tax on a consolidated basis would be Rs.1400 Crores, which is a 96% increase year-on-year. This is briefly about our performance.

The debt of the company was Rs.42068 Crores, which is lower than September 30, 2017. Our weighted average interest cost had come down to 7.03%. We could bring it down by 25 basis points from March 31, 2017. Our revenue acceptances were 1249 million. Our capex acceptances were 194 million. Our net debt equity was 1.68x. Our net debt to EBITDA was 3.32x.

As far as our capital projects are concerned, we spent close to Rs.3050 Crores for nine months period. We also opened letters of credit for import of various equipment after making advance payments to various suppliers to the extent of Rs.1600 Crores. So this Rs.1600 Crores plus Rs.3050 Crores combined, we have expenditure of Rs.4652 Crores for the nine months period.

Projects are as per the schedule. Some of the projects will get commissioned like our Dolvi Coke Oven plant, which is a 3 million tonne plant. We have started heating up one and a half million tonne – it will get commissioned by April or May of 2018; part of it can get commissioned in April. Similarly, the pipeline conveyer system gets commissioned by June 2018. Water pipeline is in the advance stage of implementation. Vijayanagar CRM complex, Dolvi 5 to 10 million tonnes, our expansion at downstream units are all going as per the schedule. The tin plate unit of 2 lakh tonnes at Tarapur will also get commissioned by June 2018. Some of these units, which are getting commissioned – either pipeline conveyer or tin plate unit or any other expansions that would get commissioned in our downstream unit, would give benefits for the next financial year.

One more important thing, which I would like to share, is about the five C category mines, which we secured in the auction in Karnataka state. For one mine we have signed the mining lease, which will get operationalised in the next week. For the second mine we will sign the mining lease before the end of March 31, 2018 and also make it operational. So, two mines out of five will be operational in this financial year, which will give us 0.71 million tonne captive source of iron ore per annum. Balance three mines are in various stages or approval either through the state government or the central government. We expect these approvals by the September 30, 2018 and make them operational. If all the five mines are operational then I will get 4.71 million tonnes per annum of iron ore captive.

With that I will stop here. If there are any questions on our financial performance, I can clarify. Thank you.

Moderator: Thank you very much. We will now begin with the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We have the first question from the line of Sumangal Nevatia from Macquarie. Please go ahead.

Sumangal Nevatia: Thanks. Congratulation on the good set of numbers. The first question is with respect to the standalone blended realisation, which we calculate almost Rs.3000 higher Q-on-Q against market prices of around Rs.2000. Is it led by some change in mix or change in geography of sales, etc., we see that exports are now almost 30% of our volumes. So, if you could just elaborate on that?

Seshagiri Rao: No, I think this Rs.3000, which you talked about may not be the correct figure if you adjust the other sales, you will see that actual increase is only Rs.1500 per tonne in NSR quarter-on-quarter (on consolidated basis).

Sumangal Nevatia: The next question Sir if you look from January start there has been significant volatility in spreads, we read that there is significant increase in steel prices, iron prices are up and coking coal continues to be very volatile, so it is possible to elaborate on the price movements of these three things versus what we have witnessed in 3Q average?

Jayant Acharya: International numbers of iron ore quarter-on-quarter and YOY actually have come down marginally, but whereas in the domestic market the NMDC prices have moved up by about 20% to 22% if you were to look at on YOY basis. As far as our cost of coal is concerned, we had last time given a guidance that we would have an impact of $5 to $10 in this quarter. We have had an impact of $6 in this quarter vis-à-vis the earlier quarter.

Sumangal Nevatia: And steel prices from January? We read that there is a significant Rs.2000 to Rs.3000 increase in steel prices across?

Jayant Acharya: Yes, there is a price increase in the month of January. Product wise it is different, so I would not like to put a number to it, but roughly about 5% to 6% has been the increase in this month across various product lines in line with what prices are there internationally. As a matter of fact, if you look at today's prices for example on hot rolled coil basis, we are still at a discount to international prices.

Sumangal Nevatia: Understand. The second question Sir is with respect to Karnataka iron ore mining scenario. So how fast do you think then supply can come in after the recent increase in cap and also what quantum of capacity will be coming up in auction in the coming months?

Vinod Nowal: These two mines, which Mr. Rao had mentioned we are going to start in the month of February or March, will give us 0.7 million tonnes and we are hopeful that in these two months we can achieve the total quantity. In auction, the total quantity in this financial year is going to be around 28 million and in the next financial year it is going to be 30 million plus the C category mines, which we are targeting, will be additional in Karnataka.

Sumangal Nevatia: I have more questions. I will join back. Thanks and all the best.

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

Amit Dikshit: Thanks for taking my question and congrats for a very good set of numbers Sir. My first question is regarding the volume guidance for FY2019? For FY2018 I hope we are in tune to achieve 15.5 million tonnes, so what we should assume for FY2019 and FY2020 if possible?

Seshagiri Rao: Against the guidance of 16.5 million tonnes for production in FY2018, we may be short by some tonnes. Because we have lost production in the Q1 and Q2 due to iron ore shortages in Vijayanagar and water shortages at Salem, we could not make it up. So to that extent there could be shortage relative to our guidance. We will be in the range of 98% to 98.5% of the guidance for production. On the sales side we were able to reduce our inventories; so, considering whatever we have achieved in first nine months, we will achieve 15.5 million tonne guidance for the sales. For the next year, I think we will be able to work out the numbers and come back in the month of May. One point I would like to highlight is that our installed capacity will remain more or less same, 18 million tonnes. So based on that we will work out the numbers and give the guidance.

Amit Dikshit: The second question is regarding the various acquisition targets and JSW name of course keeps cropping up here and there. The more definitive one as per the press is Monet and Bhushan up to an extent. Can you please throw some light on which of these companies we are targeting?

Seshagiri Rao: Out of these five cases of steel industry within the total 12 cases, we have shown interest in three cases, but we are not interested in Essar Steel and Electrosteel; we have been evaluating other three. Financial bids have already been submitted for Monet Ispat. For other two, financial bid dates are still not over – bids are to be submitted. So, they are at various stages with lenders and evaluation professionals. There is a 270 days limit given by IBC – will probably be decided by April 2018.

Amit Dikshit: Thanks Sir. I have a couple of more questions, but I will get back in the queue. Thank you.

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

Pinakin Parekh: Thank you very much. First question on the realisations. If we were to just take the Rs.16400 Crores of revenues on a standalone basis and divide that by 3.97 million tonne of sales, the implied realisation increase on a quarter-on-quarter basis comes to Rs.3200 per tonne. Now while you mentioned that the underlying steel price increase is roughly Rs.1500 per tonne; Sir what could be the other items in revenues, to which the price increase should not be attributed to?

Seshagiri Rao: So as we have mentioned, quarter-on-quarter when I look at the NSR, there is a 5% increase over Q2. If you have to arrive at this number, we have to adjust the other sales. Our investor relations team will share that with you both for Q3 and Q2.

Pinakin Parekh: Sure Sir and what items are in this other sales? What kind of products would generally be there?

Seshagiri Rao: Generally coal fines sales, power sales plus any intercompany sales. Intercompany in the sense JSW Steel imports iron ore and sells it to ARCL or imports coal and gives it to ARCL. So, they all will come in the sales, but actually it is inter-company transfer.

Pinakin Parekh: Sir second question, you did mention about the interests that JSW has; which is two of the Bhushans and the Monet. Now, Sir just trying to understand the structure that JSW would prefer. Given where profitability and given where balance sheet strength is, would the company like to still partner with other companies and take less than 100% stake in the stressed assets or it would look at acquiring this stressed assets at a 100% ownership level?

Seshagiri Rao: I think we will be able to share more with you if we are a successful bidder, but what I can tell you clearly is that we would like to contain our ratios which we mentioned – debt to ebitda and debt to equity. Within those parameters we will work out structures if we are a successful bidder either singly or with others. I think once the decision is taken by the lenders that we are the successful bidder then we will be able to share all data, otherwise it is very premature to say anything on that.

Pinakin Parekh: Understood. Thank you very much Sir.

Moderator: Thank you. The next question is from the line of Anuj Singla from Bank of America. Please go ahead.

Anuj Singla: Thank you very much Sir. Sir one question with regards to the coking coal cost for 4Q, Mr. Acharya, mentioned that this quarter is $6, so what kind of cost increase on the coking coal side can we expect in the Q4?

Jayant Acharya: We are expecting about $10 to $15 more in this January to March quarter.

Anuj Singla: $10 to $15 more and that will be the peak of the coking coal prices because the spot prices have already started to come off. Will it be fair to assume that going into the first quarter of FY2019 we should see a sequential decline?

Jayant Acharya: Logically what you are saying makes sense, but if you remember this year April the prices had fallen during January to March and then in April it peaked again at $300 because of weather disruptions. So, barring those one off events, which we cannot predict, the prices should be range bound with a modest decline which we see between now and the next quarter.

Anuj Singla: Understood and secondly Sir I could not get the iron ore production levels form the two mines, which we look to start before the end of this financial year. What could be the total productions and I just missed that number?

Seshagiri Rao: 0.71 million tonnes per annum. It will come fully in the next year, may not come fully in this year. We have commenced our operations. Some quantity can come in this quarter.

Anuj Singla: Sir if I call your comments in the earlier concall you had said that the saving from this would be limited. It will primarily be towards ensuring the supplies of iron ore or should we be expecting some cost savings as well from this procurement going into FY2019?

Seshagiri Rao: I would not expect a big saving in the cost, but one important point is once availability of iron ore goes up, the Rs.600 plus differential pricing, which is there between Karnataka and Chattisgarh, should go away. Then we could get the benefit. There are two things, which have happened in Karnataka. One is the ceiling has increased from 30 to 35 million tonnes for category A and B, and for category C additional limit has been given. With that next year availability is expected to go up; captive will go up. So with that we expect this differential of Rs.600 per tonne should narrow. That is one. Number two is our pipe conveyor, which will get commissioned by June to July 2018. That should save our freight cost. These two are important things, which can contribute to the bottom line.

Anuj Singla: Understood Sir. Thank you very much Sir.

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

Sanjay Jain: I missed that acceptances number for the revenue and the capital you did mention in the opening remarks, but can you just repeat that please?

Seshagiri Rao: 1249 for revenue and 194 for capex.

Sanjay Jain: Got it and one question on our investment that we are trying in all these NCLT cases. Of course you cannot guide what will be the exact structure everything, but if I remember correctly you have been guiding that they will be all joint ventures, so they will not appear on our balance sheet, correct me if I am wrong. What I want to know is that what kind of cash flows are we budgeting, or we should budget in our models for these investments?

Seshagiri Rao: It will be very difficult for us say how much would be because these are all very confidential biddings, which are happening. So, I will not comment right now on that except saying that we will maintain our ratios. Whether it will be through structures or whether we are single that also we will not be able to comment right now.

Sanjay Jain: I appreciate that. And one last question is on how are the spreads moving? You did talk about steel prices increase and coking coal price increase – both steel price and input cost are increasing. So, where do you see; are the spreads between the steel price and the raw material on a net basis increasing or they are now stable?

Jayant Acharya: I think the prices in this quarter we should see range bound. Whatever cost impact may be coming in on account of raw material should get offset by the price increase. But it will remain in a similar range as it was in the earlier quarters.

Sanjay Jain: Thanks so much.

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

Dhawal Doshi: Congratulations on a good set of numbers. Sir first question on the steel pricing a) if you can tell us what are the current prices both for flats as well as longs compared to the average pricing that we had for the third quarter; as in how high are they?

Jayant Acharya: We will not be able to give you prices per se exactly. It differs in geographies, it differs from product to product; but as we were saying in the month of January the prices have moved by 5% to 6%.

Dhawal Doshi: But I am not mistaken if the December exit prices will be substantially higher than the average prices. Would that be the case?

Jayant Acharya: No because in the month of December the price increase was marginal. October and November was flattish and the increase was limited if I recall to about Rs.750. That is as far as flat products are concerned.

Dhawal Doshi: How would that be for the long?

Jayant Acharya: Long steel prices have been moving up since December middle and I would say that we are seeing the impact of long is pretty more in this quarter. The prices have moved up in the month of December and January more than the flat products because it was lagging far behind.

Dhawal Doshi: So some color in terms of the absolute price movements? So what have been the hikes between December and January for longs?

Jayant Acharya: The color is all green.

Dhawal Doshi: Sir any number to it?

Jayant Acharya: It is difficult to quantify right now because the long products is the market, which is governed by secondary markets. So, it keeps on moving on a daily basis. Actually there is a daily price for secondary; so it is difficult to forecast. As I said it is better than what it was in the earlier quarter. We see general infrastructures demand picking up. Whatever activities the government has been pushing and spending on post monsoon, there is a pickup in the demand. There is also reduced availability from the secondary sector because there were some exports, which we had committed to for billets and TMT. They go a higher realisation in the export market. Therefore a combination of both has resulted in the prices moving up. It seems that in this quarter it will be sustainable because people have projects to complete in this quarter.

Dhawal Doshi: Sir second thing was with regards to once again the comparison with the landed cost of imports. So, when we are saying that we are still at a discount I believe that is comparing it with China? With Japan and Korea how would that be? Do you still see there is scope of a price increase even if I were to compare it with Japan and Korea?

Jayant Acharya: Yes, so it is not only China, any country other than the free trade agreement countries suffers from 12.5% basic customs duty for flat products. What usually the Japanese and Koreans have been doing is, their pattern of pricing has been such that it keeps in mind the delta between the Chinese and the Japanese, to the extent of more or less closer to the duty gap because they have a premium product vis-à-vis the others.

Dhawal Doshi: So basically you would mean to say that even if I were to compare it with the offers from Japan and Korea we still are at a discount and how much would that discount be?

Jayant Acharya: Currently we see in the vicinity of about 6% to 7% in hot rolled coil.

Dhawal Doshi: So that means there is still some scope of price hikes coming into February and March?

Jayant Acharya: Yes. There will be some possibility, but we are looking at the market in general, movements in the international and then we will take a view because the prices in international also we will have to observe for the next one or two months and take our call forward.

Dhawal Doshi: Sir lastly just your view on the overall iron ore pricing outlook as far as India is concerned. Do we see any resumption in mining happening in the near term for Odisha or that would still continue to impact the iron ore prices further moving up?

Seshagiri Rao: As far as Odisha is concerned this news of 20 million tonnes iron ore mines were shut, that made has made NMDC or other mining companies to increase the prices, but in fact if you really see on the ground that impact actually was limited to 5 million to 6 million tonnes. So that should not cause so much of increase in the prices of iron ore. These companies, at least some of them already made arrangements or are in the process of making arrangements for paying fine or penalty. So, we hope that in this quarter itself there is good scope that normalcy can be restored.

Dhawal Doshi: I am sorry Sir your voice was breaking. I missed you.

Seshagiri Rao: Normalcy will get resorted in this quarter because of these mining companies at least some of them have made arrangements for paying the penalties and start the mine.

Dhawal Doshi: Thanks a lot.

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

Ashish Kejriwal: Thank you. Sir when you talk about blended realisation increase of 1500 – just at the back of envelope maths Sir – the other sales, which was non-steel sales, that has increased by around Rs.700 Crores quarter-on-quarter and which is around Rs.1000 Crores, So first thing is whether this is sustainable and how much this has contributed to EBITDA? This is my first question. The second is if it is possible for you to give the last quarter EBITDA number for Amba River and JSW Steel Salav, the number, which you have given for third quarter?

Seshagiri Rao: First blended sales and realisation number that will be given by our investor relations departments, but EBITDA on standalone basis in this quarter is Rs.8991, Q2 2018 was Rs.7461, and Q3 last year was Rs.7585. These are the numbers. As regards to Amba River last quarter was 92 in the Q2 and this quarter was 97. Similarly in the case of Salav 40.65 last quarter and 40.72 in this quarter.

Ashish Kejriwal: So basically if I am looking at consolidated minus standalone EBITDA and these subsidiaries, US operations, Amba, Salav and JSW Coated, they have not reported any incremental EBITDA, but when we look at the consolidated EBITDA minus standalone, this number seems to be increasing from Rs.110 Crores to Rs.280 Crores?

Seshagiri Rao: Inventories – when JSW Steel sells HR coil to JSW Coated, if it is the form of an inventory, then eventually the profits will be reversed in the consolidation. If those inventories are sold in this quarter then profit can be added. That is the other difference, which will contribute to the consolidation.

Ashish Kejriwal: Sir lastly in case of Odisha Iron Ore mining, because we also buy it from Serajuddin Mines. What is your sense that whether they will be able to pay the penalty and restart the mine or what is going to happen; because as you pointed out that on a ground level it is just 4 million to 5 million tonne impact, but Serajuddin itself produces around 10 million to 11 million tonne on an annual basis?

Seshagiri Rao: Instead of talking of a specific mine, if X mine is stopped then the other existing mines have made up the deficiency to some extent. That is why net-net impact is 5 million to 6 million. Whether this mining company, which you referred to will start or not – our information is some of these mining companies have made arrangements to pay the penalty and start. Therefore we are saying normalcy will get restored and despite 6 million tonne of shortfall now, we will come back to normal.

Ashish Kejriwal: Fair enough Sir. Thank you.

Moderator: Thank you. The next question is from the line of Joao Ferreira from Bank Of Finantia. Please go ahead.

Joao Ferreira: Thank you for your presentation and congratulations for your good numbers. I was wondering about your capex plan if you could elaborate what do you intend to spend until the end of the fiscal year?

Seshagiri Rao: The numbers, which we have guided at the beginning of the year was Rs.8000 Crores will be the capex for the financial year. You will see the numbers, which I gave for nine months is Rs.3050 cores actual cash outflow. Another Rs.1600 Crores LoC opened. This is not cash outflow. So, total together it is Rs.4652 Crores. So if I see the same run rate, we will be over Rs.6000 Crores capex in the current financial year as against Rs.8000 Crores, which we had guided.

Joao Ferreira: Thank you Sir for your answer.

Moderator: Thank you. The next question is from the line of Anshuman Atri from Haitong Securities. Please go ahead.

Anshuman Atri: Thank you for the opportunity and congratulations on performance. Sir my question is regarding iron ore in Karnataka. Sir at what level of production will the government approve further expansion for Karnataka operation, which I believe the government is stating that only once the supply improves then the capacity can be improved. And second is the government had earlier talked about regulating domestic iron ore prices and avoiding fluctuations, but we are seeing very sharp fluctuation in domestic versus international, so have you seen any progress by the government in this aspect?

Vinod Nowal: The limit is fixed by the Supreme Court earlier was 30 million and that they have relaxed now to 35 million. Bellary 25 to 28 million, and other than Bellary 7 million plus whatever C category mines will come in production that will be over and above.

Seshagiri Rao: As regards to steel increasing capacity, we have capacity of 12 million operating and installed at Vijayanagar. We have got environmental clearance to increase by another 4 million tonne through brownfield expansion. With this 35 million tonne ceiling that has now been fixed by the Supreme Court, we expect the production to go up next financial year plus the category C mines, which will also become operational next year. So, there will be an improvement in overall availability of iron ore. Whether we increase further capacity in Karnataka – we will take a call taking into account availability of iron ore and the auction of fresh category C mines. There are eight mines, which are now offered for auction in Karnataka State by the government. The last date for submission of bids for the new mines is March 4, 2018. So, more and more iron ore will come into the market either from category C or category A & B.

Moderator: Do you have any more questions Mr. Atri?

Anshuman Atri: Yes the other question was regarding the regulation on iron ore, so there were a few talks earlier by the government that the domestic prices should be stable for the steel industries to perform well and increase capacities, but we are seeing sharp volatility in domestic prices much more than the international one. So, has there been any step by the government on this?

Seshagiri Rao: No. There is no progress as regards to the government policy on the iron ore pricing. There was a paper prepared by NITI Aayog but there is no progress on that so far. So today there is no regulation to regards to iron ore prices in India. It is between mining companies and NMDC based on market prices and dynamics. But unfortunate thing, today they are taking advantage of shortages, regulatory shortages, which are there in India either in Karnataka or in Odisha and at the same time there is increase in export of iron ore. That is why we have been requesting that there should be an export duty on iron ore not withstanding which grade it is exported.

Anshuman Atri: Sir lastly when do you expect this action on imports of these coated and other products by the government – any duty structure?

Jayant Acharya: What has happened in color coated is the government has introduced the BIS. It was not a BIS controlled product. So, the BIS has come into operation in this month, and we do expect that people will have to comply with the BIS requirements for this product also. In terms of the overall coated, we will have to submit the data to the government. We are approaching them for taking suitable trade measures.

Seshagiri Rao: Thank you Sir and all the best.

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

Bhavin Chheda: Good evening Sir. Regarding this VAT exemption in the State of Maharashtra, I believe earlier quarter there was no clarity on how much the VAT refund at what rate of SGST you would get, so is there any clarity on the same and at what rate you have accounted in this quarter?

Seshagiri Rao: We continue to account that at earlier 5%. Last quarter also we accounted at 5% and even this quarter we continue to do that. So far no clarity has come from the government. It cannot be lower than 5%. At the same time, there could be a possibility that it can go up to SGST level. We do not know finally what is going to happen. To be conservative we booked only at 5%.

Bhavin Chheda: So that would your incremental number whenever the clarity comes into play?

Seshagiri Rao: Yes.

Bhavin Chheda: Is the state government refunding the same because I believe now under new regimen you have to actually collect and pay. So, that would be additional working capital on your books right?

Seshagiri Rao: Yes you are absolutely right. Not only this refund, even normal refunds on exports or any other export benefits plus the GST refunds, which are supposed to come, they are not coming in the normal course, which used to be earlier. I think that system is yet to be normalised, so we will be following up to get the refunds. It is quite substantial amounts, which are locked in.

Bhavin Chheda: Sir my second question is on the iron ore. Earlier you mentioned that Karnataka is expected to produce 28 million versus the Supreme Court limit of 30, which is now extended to 35. So, what is your outlook for FY2019 – where this 28 million can go next year? I believe private miners would be increasing the production run rate, right? So, is there a possibility of hitting the ceiling of 33 to 34 or you think it is a difficult number to get into?

Seshagiri Rao: Just to clarify earlier the limit was 30 million divided into two parts 25 million for Bellary region and 5 million for Tumkur and Chitradurga. Now this 30 million has increased to 35 million – 28 million for Bellary and 7million for Tumkur and Chitradurga. When the limit for Bellary was 25 million earlier, they were already producing to the full extent. There is a possibility of increasing by another 3 million as far as Bellary is concerned over the existing production. For the rest, when 5 million tonne was the limit they were producing only 3.5. Now the limit is 7. There can be additional production, particularly from the two or three mining companies, which are there in Chitradurga. So, additional production can definitely come from there.

Bhavin Chheda: Just to complete on the iron ore, your five categories C mines have an annual limit of 4.7 million tonne right Sir?

Seshagiri Rao: Right.

Bhavin Chheda: That is the annual limit, so I think as you are mentioning you will start two mines in first half and the balance whenever you get the mining lease approval. But even it is starts in second half you can potentially do 4.7 full limit if you are able to do that right?

Seshagiri Rao: It is possible. The limit is per annum.

Bhavin Chheda: Thank you Sir.

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 on coated products, say even if we see the last quarter, our EBITDA was in the range of Rs.2500 per tonne. Going forward as we are increasing the volumes and even the mix is going to improve, what range can we look at in terms of EBITDA per tonne. I know that there is lot of pressure from the imports, but on a stable basis how much EBITDA per tonne or margins we should look at?

Jayant Acharya: I think the stable range would be probably somewhere in the range of 3000. Sometimes it goes down and little, sometimes it goes up a little. That is what I would say.

Kamlesh Jain: Sir even with the tin plate coming in or various other GI, GP, after that we would be having 3000 only?

Jayant Acharya: Tin plate would be different. Tin plate is a different product altogether – tin plate will command a different EBITDA per tonne, which will be higher. We will give you that data separately. Once we are in the market, we will give you a flavour on that.

Kamlesh Jain: Sir on the capex side we have now reduced our capex guidance by around Rs.2000 Crores. So, what capex levers can we see in FY2019?

Seshagiri Rao: For FY2019, we will give you correct number in May, but this guidance of 6000 does not mean that we have slowed down any of our capex. Because this is the first year, lot of orders get placed and only 10% down payment has to be paid. So it will pick up pace in the Q4 and thereafter. The expenditure guidance, which we have given overall, will be spent over a period of three years.

Kamlesh Jain: Sir lastly on this Rs.1500 per tonne quarter-on-quarter increase and it is 5% in percentage term, so does it mean that we had a realisation of 30000 only?

Seshagiri Rao: Actually this number will be clarified by our investor relations. We will give what is the other sale and what is this number. I gave you the EBITDA numbers quarter-on-quarter.

Kamlesh Jain: Thank you Sir.

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

Saumil Mehta: Thanks for the opportunity. Sir most of my questions have been answered. Just one on the strategy on the NCLT assets. I am sure there are various matrices, but if you can highlight top two or three matrix be it geographical diversification, debt repayment. So, what I want to understand how does, between Essar steel and Bhushan Steel how does Bhushan score over Essar – any broad macro thoughts?

Seshagiri Rao: So generally India is looking East and we are also look in the East. We are there in the South and West, so these opportunities we have talked about are in the East.

Saumil Mehta: In terms of a broad financial calculation between the two based on our estimation of what kind of cash flows can go into the acquisition and what kind of EBITDA generation. Still Bhushan in your assessment would have been better than Essar?

Seshagiri Rao: No, that I do not think will be able to say anything at this stage. Bids still have to go and lot of data also will come. It is highly confidential, so we will not be able to share anything right now or comment.

Saumil Mehta: Thanks a lot.

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

Rajesh Lachhani: Thanks for the opportunity Sir and congratulations on the good set of numbers. Sir most of my questions are answered. Just one on the EBITDA per tonne. So, if you see this time we had one of the highest EBITDA and just wanted to understand does this other sales contribute to the EBITDA as well or this is largely because of steel?

Seshagiri Rao: I do not think anything has contributed to EBITDA from other sales.

Rajesh Lachhani: Is this a sustainable level of EBITDA assuming the prices stay where they are and the cost is where they are?

Seshagiri Rao: Yes, if the selling prices remain at the same level, cost remains at the same level, EBITDA will be the same. Generally Q4 will be a better quarter among all the four and we will be able to do a better volume; number one. Number two is, the impact of price increases, which have been done in the last quarter plus one increase, which we have done in January, will give better NSR to us. Cost pressures are there, like $10 to $15 in coking coal, Rs.500 increase in iron ore on January 1, 2018, Rs.100 increase on December 1, 2017. These costs we have to absorb in this quarter. We are reasonably confident that all efforts are being made to preserve the margin of Q3. Beyond that it is very difficult to say what could be the guidance.

Rajesh Lachhani: Understood 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 wanted a clarification on the intercompany sales that we do the standalone suppose we are procuring iron ore and coking coal and we are selling it to Amba River Coke, so when we consolidate all these profits would be eliminated on our consolidation?

Seshagiri Rao: Yes it will be eliminated.

Pallav Agarwal: Also on the Amba River Coke EBITDA and Salav that you mentioned do we have any external sales from those companies or again these are mostly transfers to Dolvi?

Seshagiri Rao: Transfer to Dolvi as regards to Amba River Coke, but in the case of Salav they are external sales.

Pallav Agarwal: So the EBITDA from Salav would still be there in the consolidated, it will not get eliminated on consolidation?

Seshagiri Rao: No it would not get eliminated.

Pallav Agarwal: Thank you.

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

Bhaskar Basu: I just have two questions. Firstly on long product pricing. I mean I have seen price series, which suggest quite steep jump in long product prices, but I just wanted to understand whether these are prices at the trade level or it is something at the manufacture level also you are seeing almost Rs.5000 to Rs.6000 increase?

Jayant Acharya: The prices in the market of long products especially rebars are led by the secondary market. In general that has started moving up from middle of December. It has moved up both from the manufacturers as well as secondary, but manufacturers maybe with a lag as secondary goes first. In terms of sustainability – because of the fact that long product prices, especially rebars have been very low – it has been lagging flat product prices for quite some time and we see improving demand as we go into this quarter January and March; we feel that probably the prices would be sustainable in a range bound manner.

Bhaskar Basu: Do you think this is largely demand led or has there been any supply issues as well?

Jayant Acharya: Certainly there is a demand led drive because whatever projects have started by the government, after July and September monsoon period it has picked up. We see metros. We see roads and highways. We see commercial centres. We see bridges. We see river linking projects without the major river linking, but some river linkings, which have already happening in Andhra and Telangana. So, we see major demand emanating from these areas and going forward the way infrastructure push has been given by the government, we feel that this year it should be a good demand scenario for rebars.

Bhaskar Basu: Second question is on the coking coal side I think you have indicated $15 odd increase sequentially, but just to get a reference what would have been your purchase cost and consumption cost last quarter just so that we can benchmark it with the indices we normally track?

Jayant Acharya: So we have seen in the last quarter to this quarter it has gone up by $6. We are a little below $190, about $187 to $188 on a blended basis, CFR for the coke ovens. That is the level today. From here onwards, we expect the January-March it will go up between $10 to $15 on this blend.

Bhaskar Basu: This $187 is your consumption or the purchase cost during the last quarter?

Jayant Acharya: It is the consumption cost.

Bhaskar Basu: The purchase cost would also have been similar because I think the average during the quarter was also something around 190 odd levels?

Jayant Acharya: This differs because at any point of time you will have vessels on the sea, so that is why we are saying that there would be a pushup.

Bhaskar Basu: Basically your consumption cost during this quarter is almost close to the actual average during the quarter, so basically most of the increase would get realized in the next quarter and then I think it should come off if coking coal prices come down?

Seshagiri Rao: You are correct. It peaks in March, after that it tapers down the following month.

Bhaskar Basu: Thanks that is all from my side.

Seshagiri Rao: Operator can we take the last two questions please.

Moderator: Sure. Due to time constraints we will take the last two questions. We will take the next question from the line of Vikas Singh from B&K Securities. Please go ahead.

Vikas Singh: Just wanted to understand one thing Sir. Last quarter if I remember correctly then we have said that our realisation was lower than industry average because of some exports order executed at very low prices. So, this quarter its higher by 1500 – out of this how much is because of that rolling back to the normal price of exports?

Jayant Acharya: International prices in the Q3 quarter have been better, because international prices improved from Q2 to Q3, so part of the push which you are seeing is on account of the international export pricing that is correct. The domestic price increase has also been there, but there the impact has come towards the later part of the quarter.

Vikas Singh: Sir secondly we have crude steel capacity of 18 million tonnes, so taking the airlock is it safe to assume that at max we would be doing roughly close to 17 million tonnes of saleable steel and then we have to wait till have some inorganic expansion comes in?

Seshagiri Rao: We have maintained, we will be able to clarify for FY19 in May. One point which I have been highlighting is that our installed capacity for next year is the same.

Vikas Singh: Sir, your voice is breaking.

Jayant Acharya: We are in the process of our business plan formulation for the next year. So, we would be able to give you some more details in the May meeting. Till such a time what Mr. Rao is saying is that he is highlighting that the capacity remains 18 million tonnes that is the only thing which you probably will need to keep in mind even for the next year. But we will be able to come back to you with some more details in May.

Vikas Singh: Okay and Sir lastly if you can give some highlight on the increase in iron ore prices like coking coal prices, if current prices prevails for the rest of the couple of month for 4Q?

Seshagiri Rao: As I mentioned to you Rs.500 rupees increase NMDC has done from January 1, and on that again there is tax and royalties, that additional cost is to be blocked in that entire quarter. Similarly Rs.100 increase, which has been done by NMDC on December 1, 2017, the full impact will come in the next quarter.

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

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

Abhijeet Mitra: Thanks for taking my question. Sir I had a query on some of the bids that we have seen from you in the NCLT domain. Just to understand asset where one stage is completed which is Monet. What are the upstream, downstream imbalance if any that you see in the assets; investing behind that can lead to increase in capacities or do you feel the potential is more on the cost synergy side probably on the costing side like what do you did with Ispat precisely exactly five years back. So, if you can throw some light where the opportunity lies for this particular asset will be of great help. Thanks.

Seshagiri Rao: Unfortunately, we will not be able to give our comment on any of these bids. If at all we are a successful bidder then we would like to come and share with you at appropriate time. But as on date we are bound by confidentiality agreement, which we have signed to get the information from the data room. So, I will not be able to share anything right now.

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

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference back to the management for closing comments.

Seshagiri Rao: Thank you. The Q4 as I mentioned to you, is looking to be better than Q3 in terms of volume and stability in the prices and maintaining the margins. Then there is an opportunity for us to get some more iron ore mines in the state of Karnataka. We continue to make efforts to see that our financial ratios, as we have been guiding, be maintained. With regard to our volume guidance, we work very hard to see that 15.5 million tonne sales target is achieved and the pace of capex will increase. Only next year I think some benefit would flow from the capex that are getting completed in this year and also next year. From DCPL, Dolvi coke oven plant, tin plate in the downstream plus pipe conveyor at Vijayanagar. These are the three major areas where cost reduction or improvement in the volume and product mix would come which would be incremental benefit to us. Thank you.

Moderator: Thank you very much. On behalf of Kotak Securities that concludes this conference. Thank you for joining us ladies and gentlemen you may now disconnect your lines.