"JSW Steel Limited – 3Q FY2017 Results Conference Call"

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

Call host: **Ritesh Shah – Investec Capital Services**

Moderator: Ladies and gentlemen, good day and welcome to the 3QFY17 Results Conference Call of JSW Steel Limited hosted by Investec Capital Services. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. If you need assistance during the conference call please signal an operator by pressing '*' followed by '0' on your touchtone phone. Please note, that this conference is being recorded. I now hand the conference over to Mr. Ritesh Shah from Investec Capital Services. Thank you and over to you.

Kamlesh Bagmar: Thanks Stanford. Thank you everyone for joining the conference call. I would also like to thank the management for giving us the opportunity to host the call. Now, I will hand over the call to Pritesh Vinay from Group IR at JSW and request him to introduce the management and take it forward. Thank you and over to you Pritesh.

Pritesh Vinay: Thank you very much Ritesh. A very good evening everyone. On behalf of JSW Steel, we welcome you to our 3Q FY2017 results conference call. We have with us today the senior management team of JSW Steel represented by: Mr. Seshagiri Rao, Joint Managing Director and Group CFO, Mr. Jayant Acharya, Director Commercial and Marketing, and Mr. Rajeev Pai, the CFO of the company. The format will be the usual one. We will start with a few minutes of opening remarks by Mr. Rao and then we will throw open the floor for Q&A. I am sure all of you have already got access to the results including the presentation which was uploaded on the website earlier this afternoon. So I will hand over the floor to Mr. Rao for his opening remarks

Seshagiri Rao: Good evening to everybody. This quarter, there were certain events which brought a lot of volatility and turbulence. We saw the demonetization in the month of November followed by change of guard in the US after presidential elections and also Italian referendum. We have seen the volatility in the prices of iron ore, which is up by almost close to 40%. Coking coal went up as high as $300/t. Even if we look at change on quarter-on-quarter basis, there was ~35% increase in the coking coal prices. Zinc prices also went up and similarly steel prices. The swings in this quarter were very severe.

Globally the steel production went up by 0.8% for the calendar year 2016. So, overall production went up by 13-14 million tonnes but what is again concerning here is that the China contribution out of this was at 10 million tonnes or say 77%. The expectation was that China would cut down the production and their capacity but that is not getting reflected in the production numbers. Production went up to 808 million tonnes as against 798 million tonnes in the previous year. So they continue to over produce.

We are also watching exports from steel surplus countries – Japan, Korea, China and Russia. The total exports from these remained at the higher level at 210 million tonnes in CY2016 as against 214 million tonnes in CY2015.

Demonetization, it was specific to India, also impacted overall demand in India. In India, the finished steel production went up by almost 10.5%YoY in 9MFY17. Though imports have come down on YTD basis, we are again closely watching import data as If you see the December number, it went up by 33% over November. So on an annualized basis, the imports in the month of December hit a level of 10 million tonnes plus. So we need to closely watch imports. The finished steel consumption overall grew only by 3.4%. This clearly reflects that the demand in the quarter remained weak. We were expecting in the beginning of the year that the demand would increase second half. Contrary to this imports are rising and the investment cycle has no yet see pick-up. Above of all this, demonetization also had some impact on the overall demand. That is the scenario globally and India in the quarter.

If you look at JSW Steel performance in the light of these global events and Indian demonetization impact, we have shown very good results. Sequentially we are down in terms of production by 3%, in terms of sales by 5%. We recorded sales of 3.64 million tonnes but overall taking into account, the domestic and global scenario, we have made some important changes. We reduced our exports to 21% of our total sales in 3Q from 26% in 2Q and we also increased our value added sales to 37% in 3Q as against 34% in 2Q. We also increased our South and West sales proportion to 83% from 80%. Whatever impact is there in the retail; we could make up in the OEMS. We have sold more quantities in the Auto sector, in the Appliances sector, in the solar sector. All these together made us to improve our total market share to 13.9%. So with these changes, we could still get an EBITDA per tonne of Rs.7,711 per tonne in 3Q compared to Rs.7,085 in the 2Q. It is a big improvement on YoY basis as against the EBITDA of Rs.4,059 per tonne in 3QFY16. However, I would like to highlight one point in this regard. Every time when the prices start coming down, either iron ore, coking coal or steel prices, there are inventory losses like we had to booked last year, because of the lag effect. Similarly, whenever prices go up, there are inventory gains. So, in this quarter, there are inventory gains, which are of approximately Rs.215 Crores. So therefore, if I make that adjustment of inventory gain specific to this quarter, this Rs.7,711/t will come down by Rs.500/t.

As regards to our overseas subsidiaries, Chile and US coal, both of them are under care and maintenance shut down. However, as the coking coal prices have gone up, we are looking to restart our coking coal operations in the US. We are planning to it start by the end of April or early May. Our plan for next year is of 0.5 million tonnes production from the US coal operations. The plate and pipe mill operations remained weak in the US. There was some correction in the plate prices, so overall the EBITDA was negative $4.5 million in the US plate and pipe mill.

The Indian subsidiaries have done well, particularly, JSW Salav. It is working now at full capacity. It is EBITDA level profitable. Similarly, Amba River Coke, JSW Coated Products, and recently acquired industrial gases, all these units are profitable. After consolidating all these subsidiaries and associates, our operating EBITDA on a consolidated basis was Rs.2,867 Crores.

Our inventories are more or less at the same level at the end of last quarter. The consolidated net debt was at Rs.44,265 Crores. The net debt to equity was at 2.11x, and net debt to EBITDA was at 4.02x. The capital acceptances were $213 million, revenue acceptances were $1.2 billion.

We have given guidance of 15.75 million tonnes of crude steel production and 15 million tonnes of steel sales. In the 9M FY2017, we have achieved at 74.3% of our guidance in terms of production and 72.1% in terms of sales. We are making every effort to achieve the guidance.

The demonetization impacted our volumes to the extent of around 2 lakhs tonnes in the Q2 – a sequential reduction in the Q3 over Q2. Gradually, we are seeing some improvement in the market again on account of re-monetization. We also expect a positive budget, which will lay emphasis on the infrastructure and more outlays. So, with that we expect steel demand may be better in this quarter and also going forward in the next year. So, with this I open the floor for Q&A, thank you.

Moderator: Thank you. We will now begin the question and answer session. Anyone who wishes to ask a question may press "*" and "1" on their touchtone telephone. If you wish to remove yourself from the question queue you may press "*" and "2". Participants are requested to only use handsets while asking a question.

Ladies and gentlemen, in order to ensure that the management is able to address questions from all participants in the conference, please limit your questions to 2 per participant.

We will take the first question from the line of Ritesh Shah from Investec. Please go ahead.

Ritesh Shah: Thanks, Sir, I have two questions; one for Mr. Acharya and for Mr. Rao. For Mr. Acharya, Sir, what are the expectations and timelines on the final anti-dumping duties for the HRC and CRC given their expiry in the month of February and secondly, any proposals on revised tariffs against FTA countries?

Jayant Acharya: Yes, so as you rightly said the preliminary provisional findings on the hot rolled and cold rolled is expiring but there is a move to extend that by two months. During which period the final determination will be done.

Ritesh Shah: Great, and Sir against FTA countries?

Jayant Acharya: So FTAs, especially Japan and Korea, are coming up for some review. So that will be reviewed at that point of time. The government is yet to take a final call on that.

Ritesh Shah: Sir, my second question is from Mr. Rao. Sir, what is our strategy on inorganic growth given we have been in news flow for multiple reasons be it Bhushan or Monnet, so if you could please elaborate our strategy on inorganic growth, it would be great. Thank you.

Seshagiri Rao: As regards to inorganic growth, JSW Steel continues to look at opportunities both in India and also overseas. Last time we clarified as regards to Ilva as we were looking at Ilva. Similarly, if any assets are there in India, we will look at them subject to the condition that they meet our benchmarks of total cost and our ability to turn around and synergy with us. However, we are unable to comment right now on any specific target.

Ritesh Shah: Just Sir, to take this forward, would we look at particular gearing ratios that we would not breach if we had to acquire anything inorganically, domestically or internationally?

Seshagiri Rao: Yes, definitely. We have already communicated that we would like to maintain debt to EBITDA at 3.75x. We are today at 4.02x for 31st December. So, we would like to bring it down. By end of this year, as we have been guiding, we will be able to bring it down below those levels. So we will continue to look at these covenants and the ratios.

Ritesh Shah: Great. Thank you so much sir.

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

Amit Dixit: Thanks Sir for taking my question and congratulations for a good set of numbers. I have just two questions; one is that what was the coking coal cost in dollar terms for us in Q3 and what is the expectation going ahead. My second question is, what is the interest cost currently because we saw that interest has come down during this quarter as compared to Q2.

Jayant Acharya: The blended coking coal cost on CFR basis was about $172 for Q3 and we expect that the coking coal cost in Q4 will be in the vicinity of $220 - $225. This is the blended coal cost.

Seshagiri Rao: As regards to the interest cost, our weighted average interest cost is around 7.19%. This interest reduction in this cost - there is a one-time benefit, which has come in the interest. So that is approximately Rs.50 Crores. This is a one-time settlement for interest with one of the lenders in the US plate and pipe mill, so we have settled that. So that 50 Crore benefit has come. So if we adjust, I do not think there is any reduction in the overall interest.

Amit Dixit: Sure sir, that helps. Thank you.

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

Ravi Shankar: Good evening Sir and congratulations for a good set of numbers. Two questions, one was if we were to remove the standalone EBITDA, so the consolidated EBITDA minus standalone EBITDA seems to be negative. Now what are the bigger pockets of EBITDA losses, we can see that there is US plate and pipe mill, but that is a very small EBITDA loss during the quarter. So where else are these pockets?

Seshagiri Rao: No, the operating EBITDA, if I look at standalone is Rs.2,808 crores, whereas if I look at operating EBITDA on a consolidated basis, it is Rs.2,867 crores.

Ravi Shankar: I have removed the other operating income actually from these numbers and then it actually swings to a loss.

Seshagiri Rao: No, what happens is, because of the Ind-AS most of the subsidiaries including ARCL will come in as a part of standalone result. So only the subsidiaries, where there is no take-or-pay agreement, only they will come. So because of the losses either in Chile or US subsidiary, they get consolidated which is negative that is why you find this without operating incomes.

Ravi Shankar: Okay and secondly, on net debt, do we see these as the final ticking out numbers or could there be some more, given that there is some capex and away.

Seshagiri Rao: No, we have guided for total capex of Rs.4,300 crores for FY17 and we are on the target. Our intention is to bring down the debt. This increase in net debt from Rs.43,937 crores to Rs.44,265 crores is majorly on account of translation due to foreign exchange rate fluctuation. Otherwise there is no increase in the debt. So we would like to bring down the debt by end of this quarter.

Ravi Shankar: Okay, that is all from my side. Thank you Sir.

Moderator: Thank you. We take the next question from the line of Anuj Singla from Duetsche Bank. Please go ahead.

Anuj Singla: Thanks for taking my question. Sir, first question, could you please guide on what kind of realization gain we have seen in this quarter on a sequential basis, maybe on the blended basis, if you can us give an estimate of that.

Jayant Acharya: So, sequentially the realizations have gone up about Rs3,200 to 3,400 per ton range.

Anuj Singla: And Mr. Acharya, since the end of the quarter, could you please also give some colour on what kind of realization we should be expecting in the coming quarter, January to March quarter, I presume we have already taken two significant price increases in December and January. So, any idea what kind of…where we would be versus the last quarter's average as of today.

Jayant Acharya: No, that is very difficult to predict. So I think that will depend on the product mix, the geographical mix etc. Yes, we have taken some increases in the month of January but we will wait and see where the blend stands.

Anuj Singla: And media reports are pointing towards this being around Rs.3,000 per ton increase, first thing, is that broadly the pricing base taken by the domestic industry and secondly, has it been absorbed in the domestic market?

Jayant Acharya: So again, I would not like to comment on product to product because product to product they are different numbers. Long products went through a different cycle of increase and flat products went through a different cycle of increase. So, I would say that in flat steel the increase has been more than in long steel., By and large I would say that we have taken an increase of $30 - $35 per ton in hot rolled or in flats.

Anuj Singla: Okay, between $30 and $35 across different products?

Jayant Acharya: For flat products I am saying.

Anuj Singla: And lastly, Mr. Acharya you also guided in terms of the landed cost of coking coal on a CFR basis around 220 – 225. So, is this a blended cost for the company or this is just on a like-to-like basis and if the product mix changes towards lower grade coking coal that the cost impact would be lower.

Jayant Acharya: This is for the coking coal blend, which we have been giving you as an indication so we are maintaining this on a like-to-like basis CFR port. So this is the blend of all the coal, which goes into the coke mix.

Anuj Singla: Okay, understood sir. Thank you very much.

Moderator: Thank you. We take the next question is from the line of Salil Desai from Premji Invest. Please go ahead.

Salil Desai: Sir, the surge in imports in December, what would be your assessment be what is driving this in spite of the MIP and when you spoke of remedial measures, what additionally would you like to see has been implemented?

Jayant Acharya: So, the data about the December imports have just come in. The imports, which have gone up by 33% in the month of December, we have seen a gradual increase between October, November, and December. We are analyzing these numbers. As you are aware, the provisional anti-dumping numbers was fixed at about $474 for hot rolled coil. Now, since the international prices have gone up on a raw material cost push, these prices have somewhere been breached. So, based on the current data of imports available, we will be analyzing that and again approach the government agencies for a relook at the trade remedial measures.

Salil Desai: Okay, thank you.

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

Sanjay Jain: Hi, I have two questions, one is on captive iron ore mines that we got in the auction, what is the progress, when should we expect the production and second question is on Salav, what is the operational status of that plant, what level of production we are running and how much gas we are getting, if it is operating.

Seshagiri Rao: As regards to the five captive iron ore mines which we have got, we guided last time that two mines (having a capacity of 0.71 million tonnes) will be operational by end of this financial year and balance three mines will be operational by end of December 2017. So we are working towards that. These two mines require seven approvals. We are quite advanced stage to get these approvals, so we expect we should be able to start these two mines of 0.71 million tonne in April 2017. The other three mines require a lots more time then these two mines. In the case of these two mines, only a transfer of existing approvals (which are already in place) are required whereas for other three mines we have to apply afresh. It will take longer time. We expect that also will be in place by end of December. So the next calendar year January we expect the three mines also to start, all five mines together will give approximately 4.7 million tonnes.

The Salav unit is now working near to full capacity. The capacity is 75,000 tonnes a month. So we are operating approximately 60,000-65,000 tonnes right now. I can give you the details later but there is APM gas that is available at 0.2 Cubic meter, balance we are buying in the market and then operating the plant. Out of this, as we have been telling earlier, once the Dolvi picks up capacity to the full extent, they will be able to consume almost 40,000- 50,000 tonnes from Salav, that is what is happening right now. Balance we will be selling to alloy steel producers in India and also to export partly.

Sanjay Jain: Okay, thank you.

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

Bhavin Chedda: Good evening Sir. What would be the balance capex for Q4 and what would be the FY2018 plan?

Seshagiri Rao: Capex guidance for the year is Rs.4,300 Crores, out of this Rs.3,300 Crores we have already incurred up to 31st December. So, we will be incurring another Rs.1,000 Crores in 4Q. So we are on track as regards to capex for the financial year. Next year capex, we will be able to guide in the month of May.

Bhavin Chedda: By May. Okay. Thanks a lot.

Moderator: Thank you. We take the next question from the line of Dhaval Doshi from Phillip Capital please go ahead.

Dhaval Doshi: Hello sir and congratulations for the good set of numbers. Sir, just a question on the price hikes. Coming back to the hikes, which were taken, if I am not mistaken, in the last quarter, majority of the hikes had happened in December, if I were to talk in terms of the overall quantum. So can we say that the full quarter impact for Q4 can be substantially higher in terms of the average realization that we have seen for this quarter, we could see northwards of Rs.4,000-Rs.5,000 further assuming they stay firm?

Seshagiri Rao: No. For instance, if you see some increases, which happened in the last quarter, were reflected already in the result. As far as January is concerned, we have increased the prices, further increases will (whether happens or not) depends on the international prices and the landed cost of imports. But if I really calculate today, the domestic prices are still at a discount vis-a-vis the landed cost of import.

Dhaval Doshi: Sir, if I have to put my question differently, if I were to look at the HRC prices, average of the last quarter and the current prices, what would be the differential currently?

Jayant Acharya: Maybe Pritesh can give some details or some colour on that later but I think you can also calculate it from the result release. But I think what you are asking is that as the price increase were gradual how much impact would of those increases would be pushed to 4Q.

Dhaval Doshi: Yes Sir.

Jayant Acharya: So since, let us say, October, November and December, the increases were gradual in nature and the increase in December was higher. So yes, to some extent some follow through benefit will be there in 4Q. Having said that we also have to keep in mind that February and March are unknown as of now and quarterly numbers will therefore be reflective of what happens in February and March and the absorption of January increases.

Dhaval Doshi: Fine, but Sir any colour in terms of…okay I will take it up separately. Sir, secondly, with regards to the overall demand situation, we have seen some OEMs cutback on the production, do we see that impact coming in terms of shipments for the fourth quarter or we do not see really any impact?

Jayant Acharya: No, we have not really, as a matter of fact, in the Q3, we have actually increased OEM sales from Q2 toQ3 by about 140,000 tonnes in the domestic market. We were impacted in the retail because of demonetization which was sequentially down by 12%, but we have increased OEM sales. The sectors, where we were able to achieve the higher levels of penetration, are Automotive, Appliances, Solar, Pressure Vessels and trunk pipelines. So, there may be some specific people who have not been able to run up their production to full capacity but certain sectors in general, are doing well. There have been some liquidity concerns in the market with some of the customers due to which there could have been some impact for that particular month till inventories adjust but that I think it would be more temporary.

Dhaval Doshi: Okay, so we do not really see a big impact as for as the OEM volumes are concerned in Q4. My last question on the coking coal, so peak coking coal cost on a blended basis will not be significantly higher than what you indicated for Q4 or you could see some impact flowing into Q1 of FY18 as well?

Jayant Acharya: We have shared with the average number for our coking coal blend. We are using our blend in an optimal way to achieve the best results. So, we think that this would probably be the kind of number, which would be reflected for the quarter unless the coal index again suddenly rises for the month of February and March, which is unknown as of today.

Dhaval Doshi: I will come back for question. Thank you so much.

Moderator: Thank you so much. We take the next question from the line of Anupam Gupta from IIFL. Please go ahead.

Anupam Gupta: Yes Sir, just on the coking coal, for Q2 you had mentioned that the average coking coal price was $103 and for Q3 it was $172. So if I try to do the math and try to see what is the increase in raw material cost per tonne, the coking coal increase it should be higher than what is the actual raw material price increase. So what explains that difference?

Seshagiri Rao: As I mentioned to you, one reason is inventory benefits which has come on account of higher cost of materials which are there in the current inventory. So, you have to make the adjustment for this. Then, power cost per unit was also lower.

Anupam Gupta: Yes, power is fine, so power is a separate item. I was just trying to do the… So inventory is what you are saying explains that.

Seshagiri Rao: Yes.

Anupam Gupta: And Q3 would have also taken the increase in iron prices, which are NMDC related in October, right?

Seshagiri Rao: Yes.

Anupam Gupta: Then fourth quarter should also see further increase in that, right?

Seshagiri Rao: We do not know what NMDC will do but if they increase, yes, it will come.

Anupam Gupta: So they have already increased in January beginning, right, so that should flow in fourth quarter?

Seshagiri Rao: Correct

Anupam Gupta: And secondly, on the volume side, in the retail sales, was there some impact of pre buying because of demonetization or pre buying in expectation of the price rise which would reflect in lower demand in fourth quarter as per you or is that not the case.

Jayant Acharya: No, we have already seen lower numbers sequentially between Q2 and Q3 by 12% in retail.

Anupam Gupta: Okay but in your view that itself also does not include any pre buying in anticipation of a price rise or would…?

Jayant Acharya: I think that could have been by and large balanced, there could have been a little bit of pre buying in the month of December but may not be too high.

Anupam Gupta: Okay I understood Sir. Thank you.

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

Saumil Mehta: Yes, thanks. Sir, my first question is, while the industry is going to make a representation of increasing the anti-dumping given the higher export prices, but if one looks at the recent decline in coking coal and scrap it looks like may be global prices will come off. In that case how does the industry make a presentation in increasing the anti-dumping deals?

Jayant Acharya: I think, what we are saying is that based on the import data which has come in for the month of December, we will analyze the import details and then request the government agencies for a suitable review. So, once we do an analysis of the import data, their prices and then we will take a call. However, as you know that import volume has surged by 33%, which on an is approx. 10 million tonnes, is a matter of concern. Therefore, it necessitates some analysis and if it makes sense, we would request the agencies to have a relook at the trade measures.

Seshagiri Rao: I want to just add here that whenever we make an application, we take a period of investigation. So, the reference price is set using the change in prices and cost of production during the reference period. It does not automatically go higher. So again if prices or cost of production goes up or down in the future, then that will be a different investigation period. However, if we take investigation period up to December where imports have increased, then there is a justification for increasing the reference price.

Saumil Mehta: Okay, continuing that question, if the spot prices or may be some of the future time estimation does come into play when the government comes out with a preliminary duty or a final duty.

Seshagiri Rao: Yes, that is why the trend has to be seen. The imports were at 8,40,000 tonnes in the month of December and if this trend continues for another one or two months, it will definitely give a very strong justification for review.

Saumil Mehta: Sir, second question, I just missed out on the total volume guidance for FY17 sales volume guidance.

Seshagiri Rao: 15 million tonnes.

Saumil Mehta: Which implies roughly about 25% to 27% YoY growth in fourth quarter while last two quarters, we have done phenomenally well. What gives us the confidence that we will be able to do a +20% volume growth for this quarter or maybe the export share will increase is that what we should estimate.

Jayant Acharya: The same consistency, I suppose with which we have delivered in the past.

Saumil Mehta: Okay sure. Thank you so much.

Moderator: Thank you. We take the next question from the line of Abhishek Poddar from Kotak Securities. Please go ahead.

Abhishek Poddar: Hi Sir thanks for taking my question. Sir just needed one clarification on the coking coal cost of $172 per tonne for Q3. Is that a purchase price or the consumption price Sir?

Jayant Acharya: It is consumption, but CFR port.

Abhishek Poddar: Okay on consumption. You have consumed at $172 and then you are going to consume at $220 to 225 dollars in the fourth quarter. That would be right. Okay, second question is, what is the difference right now between the domestic HRC prices and export realization that you are seeing?

Jayant Acharya: I think it is a difficult to put a number for this. But international prices today, by and large if you see, are at $550/t range. Maybe in the western world, it is slightly higher. Domestic level of prices in certain regions, if you look at Japan, Korea, Europe as well as in US, are higher than what is prevalent in India. So currently, I would say that the international prices are ahead of our domestic numbers and therefore we do not see any substantial gap between the two. Depending on how much price variation happens in this quarter that is a gap we will have to see as we go along in the quarter.

Abhishek Poddar: And Sir just the last question, what is your year expectation of these steel prices going ahead because the coking coal prices have come down. Are you seeing that the buyers are already asking for a discount or some price pressure coming in back?

Jayant Acharya: No if you really go back to this… if you look at the current coking coal and iron ore equivalent cost that is the pig iron cost, then this pig iron level of equilibrium was seen in 2014 as well when the price of steel was $580 to $600. Today at the same equilibrium, we have a price, which is let us say is in the vicinity of $550. So this price level is not something, which has not happened earlier. These are basically kind of numbers required for steel industry to sustain. I would say that we expect prices should move in a range-bound manner during this quarter.

Abhishek Poddar: Okay Sir. Thanks a lot.

Moderator: Thank you. We take the next question from the line of Ashish Kejriwal from Elara Capital. Please go ahead.

Ashish Kejriwal: Yes thank you. Sir this is in regard to our blended realization you mentioned that on an average blended realization for this quarter increased by Rs.3,200 to Rs.3,400 per tonne, but if we do the math by just calculating your top line and volume, it comes to be around Rs.5,000 per tonne. So I was just wondering what else is included in top line besides steel sales and if you can give the number for that for second and third quarter.

Jayant Acharya: So I think Pritesh will help you with those details offline.

Pritesh Vinay: Ashish If I can just add that there is some element of other sales also. You need to basically adjust that. So we will take it offline.

Ashish Kejriwal: Okay and secondly in terms of consol minus standalone EBITDA in one of the questions also you mentioned that now we start including something in the standalone also, because we adopted Ind-AS from the beginning of the year, so from second quarter to third quarter it shows a massive dip if not loss, but at least it is coming from 240 to 258 Crores. So I am just wondering, which subsidiaries has dented this kind of profit because US operation that is just 4 to 5 million dollars and what else is there like Amba River are we making losses over there or how can we explain this?

Seshagiri Rao: No, in addition to losses in the US plate and pipe mill, there is also a consolidation adjustment. This comes due to intercompany transactions like iron ore imported by steel and sold to ARCL which is still lying in the stock and is unused. Similarly, any coke imported in the standalone company and sold to a subsidiary but was not consumed. So, the profit on that will get eliminated in the consolidation. That is why you will find this difference. You will also see in the standalone results that there is purchase of traded goods. So, that is the profit element which gets adjusted in the consolidated results. This was approximately of Rs.100 Crores.

Ashish Kejriwal: So you mean to say that in standalone EBITDA one can safely say that 100 Crore is knock off in terms of consolidation.

Seshagiri Rao: Yes, if you don't follow Ind-AS.

Ashish Kejriwal: Okay. Fair enough Sir and lastly in terms of capex plans obviously we are about to reach our optimum level in next year, so besides inorganic opportunity is we looking any organic opportunities also.

Seshagiri Rao: We will continue to look at both organic as well as inorganic opportunities. But at the same time we are already guiding that we want to bring down our debt to EBITDA ratio below 3.75x. So if at all, we decide to do any inorganic acquisition or grow organically, we will do that keeping this ratio within this parameter.

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

Moderator: Thank you. We take the next question from the line of Kamlesh Jain from Prabhudas Lilladher. Please go ahead. Kamlesh from Prabhudas Lilladher your line is unmuted. You may go ahead. As there is no response we move to the next question. We take the question from the line of Sumangal Nivetia from Macquarie. Please go ahead.

Sumangal Nivetia: Yes, good evening Sir. This is Sumangal. Just one or two questions remaining one on US coking coal mines what would be the breakeven cost there and given the prices already collapsed back to 170 to 180 odd levels what would be the medium-term strategy.

Seshagiri Rao: There we have a prep plant, which is having a capacity of 2.4 million tonnes input material. However, starting the mine operations and getting coal from our own mines, may take some more time. So, right now what we will be starting is 'buy the coal and wash it and then sell it in the market'. So we are trying to freeze the differential between the buying and selling price. So, we will sign both the contracts and then try to start the operations as early as possible or say by April. Our own mine may come after three months.

Sumangal Nivetia: And on that we expect around half a million tonne as to virgin mine production.

Seshagiri Rao: No, half a million tonne is total of what we will buy from the market and production from our own mine.

Sumangal Nivetia: Understood and Sir for iron ore now given the price have gone back to 80 odd levels, are we considering restart of mines in Chile for the same reason.

Seshagiri Rao: I do not think it makes sense to restart Chile even at $80/t price. That is why it will take some more time.

Sumangal Nivetia: Understood and Sir just last question continuing on the previous question. I mean from a three- to four-year perspective I mean if I consider organic growth avenues what would be the brown-field expansion potential at Karnataka or Dolvi, I understand a lot of these would be at drawing board stage, but if you could just share as to what direction we could take.

Seshagiri Rao: At Dolvi, as we have been guiding, we have got the environmental approval for up to 10 million tonnes. Today, we are 5 million tonnes, so it can be expanded by 5 million tonnes quite quickly. At Vijayanagar, we have got the environmental clearance for 16 MTPA capacity. We are now at 12 MTPA, it can be can be expanded by another 4 million tonnes. But Dolvi is much more attractive in terms of availability of raw material. At Vijayanagar, iron ore availability will be constrained until the honourable Supreme Court increases the Karnataka iron ore mining limit of 30 million tonnes.

Therefore, we may take some time to take any further expansions at Vijay Nagar. So, we will evaluate and come back to you.

Sumangal Nivetia: Okay and will we have the land in place or even land acquisition will happen after the approvals there.

Seshagiri Rao: Land acquisition is a continuous process because our long-term strategy at Dolvi is to become 10 million tonnes. So land I do not think is a constraint for Dolvi to become 10 million tonnes plant.

Sumangal Nivetia: All right that answers and thanks and all the best Sir.

Moderator: Thank you. Ladies and gentleman, we take the last question. We take the question from the line of Abhisar Jain from Centrum Broking. Please go ahead.

Abhisar Jain: Sir congrats for a good set of numbers. My question is on the contract pricing for some portion of our sales. So last quarter you had mentioned that the pricing for both quarterly and half yearly contracts were under discussion. Can you just throw some colour on that because obviously the spot pricing was moving up at that time quite significantly?

Jayant Acharya: The quarterly prices for Q3 have been by and large are closed. So that discussion is over. There are some half yearly prices, which are mostly for automotive sector and are basically under discussion. These would be finalized during this quarter, but the volume quantum of that is not enough to swing the needle for you in terms of too much impact on the overall EBITDA.

Abhisar Jain: Okay and Sir the other question is on the coking coal side actually when the coking coal was going up, you had indicated that we would be making all efforts to reduce the hard coking coal consumption per se, so have we made some progress in that or is the hard coking coal mix still remains at around 60%.

Jayant Acharya: So, we continue to evaluate the blend to optimize the mix cost. So hard coking usually has been in the blend of 55% to 60%, but when the coking coal costs in general have gone up in the last quarter we have made some efforts as well to improve the blend so the percentage may differ a bit with respect to the hard coking component, but not too much.

Abhisar Jain: And also sir usage of pet coke been tried also for making coke.

Jayant Acharya: Yes.

Abhisar Jain: So is that also something, which can give some saving per se as compared to say consuming the whole of coking coal from the market.

Jayant Acharya: Pet coke is already part of the blend cost, which we have been giving to you. We are using pet coke for some time.

Abhisar Jain: That is all from my side sir. Thanks and best of luck.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference over to Mr. Ritesh Shah from Investec Capital Services for closing comments.

Ritesh Shah: Hi, thank you all for joining the conference call and thank you management team for giving us the opportunity. Thank you.

Moderator: Thank you very much on behalf of Investec Capital Services. That concludes this conference. Thank you for joining us.