“JSW Steel Limited -3QFY15 Earnings Conference Call”
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Management: Mr. Seshagiri Rao, Jt. Managing Director & Group CFO
Dr. Vinod Nowal – Dy. Managing Director
Mr. Jayant Acharya, Director – Commercial & Marketing

Call host: Mr. Sanjay Jain – Metal Analyst, Motilal Oswal Securities

Moderator: Ladies and gentlemen, good day and welcome to JSW Steel 3QFY15 Results Conference Call hosted by Motilal Oswal Securities Limited. As a reminder, all participants’ 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, please signal an operator by pressing “*” then ”0” on your touchtone telephone. Please note that this conference is being recorded. I now hand over the conference to Mr. Sanjay Jain of Motilal Oswal Securities Limited. Thank you and over to you Sir.

Sanjay Jain: Thank you Bikram, good afternoon Ladies and gentlemen. On behalf of Motilal Oswal Securities I welcome you all to the 3QFY15 earnings conference call. It gives me immense pleasure to welcome the top management of JSW Steel. From my initial observation, I will request the management to touch upon two points in the opening remarks. Firstly, there is a sequential increase in interest cost and secondly there is also a sequential jump in other operating expenses despite the fact that production is down. Now I hand over the floor to Mr. Pritesh Vinay, Head of Investor Relations and Capital Markets at JSW Steel to introduce the management and take the call forward.

Pritesh Vinay: Thank you Sanjay. On behalf of JSW Steel I welcome all of you to the 3QFY15 earnings conference call. We have with us today the senior management team of JSW Steel represented by Mr. Seshagiri Rao, the Joint MD and Group CFO; Dr. Vinod Nowal, the Deputy MD; Mr. Jayant Acharya, Director Commercial and Marketing and Mr. Rajiv Pai, CFO. We will start with opening remarks by Mr. Rao and then we will go straight in to Q&A in order to make the call efficient for all the participants. So, I would request Mr. Rao to start with his opening remarks please.

Seshagiri Rao: Good afternoon. I welcome you all to the briefing of 3QFY15 performance of JSW Steel. As you are all aware that the business environment, in which the steel industry is operating is, very challenging. There is structural over capacity which has lead to almost all the countries to look for export of steel products. So, India is one of the countries, where steel demand growth in the first nine months of the year is 1.4%, is seeing a surge in steel imports. In 9MFY15, the steel imports increased over 63%YoY and in the month of Dec’15 the imports touched almost 1 million tonne. The four countries, Russia, China, Korea and Japan together constituted 75% of the total imports in to India. These imports are happening at lower prices than the domestic market prices in the respective countries, this has put a lot of pressure on the sales realization in the Indian market. So this is the scenario in which JSW Steel has operated in the last quarter. In spite of these challenges, we could move towards achieving our guided volume of production and sales. Our production was 3.17 million tonnes of crude steel, saleable steel sales was of 3.027 million tonnes. Our EBITDA was Rs.2,117 Crores. This EBITDA
margin of 18.4% should be looked into the context that: 1) our value added product sales to overall sales ratio has increased to 35%, 2) our exports sales constitute 29% of the total sales volume, 3) Sales realization have dropped but costs have not down to the same extent as we got some benefit in Coal cost, however we could not get any benefit of fall in Iron ore prices. Internationally, from Jan’14 to Jan’15, the iron ore prices fell by 48% but domestic iron ore prices went up by 14%. So, this has put the pressure on the margins. Net sales realizations fell but we could not reduce the cost of production despite our best efforts as the iron ore prices in the domestic market went up. Therefore the EBITDA margin has fallen and the overall absolute number of EBITDA is only Rs2,117 Crores. The profit after tax is Rs414.69 Crores at standalone level.

Out of the two items, which Mr. Jain wanted me to touch upon, one is related to interest. During the quarter, we have raised $500mn bonds with an intention to prepay the outstanding rupee loans. So, when we have prepaid those rupee loans, where we will get the interest benefit in the following quarters, we have paid a prepayment premium. That prepayment premium was Rs.30 Crores, this is a one off cost in this quarter. The another reason of increase in interest cost is the increase in working capital which we have to put in this quarter in terms of: 1) increase in finished goods inventory by 1.35 lakh tonnes and 2) also the increase in the overall raw material inventory, particularly due to import of iron ore. We have increased our debt in this quarter by Rs3,500 Crores, therefore the interest cost has gone up at consolidated as well as standalone level.

As regards to other expenditure, other expenditure has gone up due to higher hedging cost. As we started importing iron ore starting from 2Q onwards, the acceptances went up leading to more hedging - which is per our policy of covering 100% of acceptances to ensure that there is no impact of Forex volatility on the revenue account. So, the hedging cost is forming part of the other expenditure which has gone up relative to corresponding quarter as well as sequentially. The second reason is the job work charges which we are paying to get the DRI converted - we supply the pellets and get the DRI job work done - these job work charges are also a part of the other expenditure. These are the two reasons why you will find other expenditure have gone up.

In spite of higher interest and higher other expenditures, the profit after tax on the standalone basis is Rs414.69 Crores. As regards to consolidated results, we have achieved an EBITDA of Rs2,295 Crores and profit after tax of Rs328.94 Crores. In USA, the plate mill has operated at around 34% and the pipe mill at 34% utilization respectively, but the operating EBITDA is negative $0.45 million. In US, slabs were bought at higher prices, but prices fell in line with the drop in international steel prices leading to the negative EBITDA from the US Plate and Pipe Mill operations. In Chile, a sharp correction in the iron ore prices lead to a negative EBITDA of $6.45 million. So this was about the two international operations. In India, JSW Steel Coated Products has done well, it has shown an EBITDA of Rs65 Crores for the quarter, and similarly ARCL has shown an EBITDA of Rs58 Crores. On a consolidated basis, the profit after tax was Rs328.94 Crores. The net debt at the end of quarter was Rs39,563 Crores.

We are seeing that going forward, as far as January to March is concerned, the imports continues to be a concern. We have taken up this very strongly with the Government of India. The way other countries have taken steps to stop the dumping in to those countries, our government should also take steps by increasing duties, by putting anti-dumping duty, by implementing quality orders and restricting the secondary/inferior
quality products coming in to India. So these are the steps we have suggested to the
government. We are very hopeful that they will take steps and the imports will come
down gradually.

We saw a slight pickup on the domestic demand side in 3Q relative to the first half. The
overall demand in the first nine months has gone up by 1.4% as against 0.6% or 0.7% in
the first half of the year. We should call it as flat demand only, but going forward the
steps and reforms taken by the Government of India may to revive the economy, and
the domestic demand may pickup in the second half of next year.

Then as regards to our projects, the electrical steel plant at Vijayanagar and also the
second phase of cold rolling mill will be commissioned in 4Q. The expansion from 3 to 5
million tonnes at Dolvi is in a very advanced stage, we will commission it as expected by
September 30, 2015.

As regards to overall guidance of 12.9 million tonnes crude steel production and 12.4
million tonnes of sales – we have achieved 74.5% of production guidance and 72% of
sales volume guidance in the first nine months. So, we are reasonably confident that we
will be able to achieve these targets. With these remarks, I open the forum for
questions-and-answers.

Moderator: Ladies and gentlemen, we will now begin the question and answer session. We have
our first question from the line of Saumil Mehta from IDFC Securities, please go ahead.

Saumil Mehta: Sir, the net debt to gearing as well as net debt to EBITDA has gone above our
comfortable levels of 1.5 and 3.5 times. Steel market in India does not look that
promising, possibly cash flow will be weak, so do we expect any curtailment in the
Capex guidance or how do we plan to reduce our leverage ratios?

Seshagiri Rao: Yes, it has gone beyond our comfort level of 1.5 and 3.5. We have given a guidance of
Rs7,500 Crores Capex for this financial year whereas first nine months of the year we
are at Rs4,500 Crores. So, we are already working keeping in mind the financial ratios,
thereby we will moderate our Capex.

Saumil Mehta: Any possible indications what could be your next year Capex guidance from an earlier
level of Rs4,500 Crores?

Seshagiri Rao: We will assess the projects implementation and expenditure incurred up to the
financial year and then we will guide you in the month of May. But as of now this year,
taking in to account that Rs4,500 Crores was spent in the first nine months of the year,
Rs7,500 Crores Capex is getting moderated.

Saumil Mehta: Sir, in terms of the realization, do we expect any change in mix probably or higher sales
to domestic markets or is there any change in strategy because global prices are coming
down very significantly and given the weakness in domestic demand how do we plan to
offset this?

Jayant Acharya: We have scaled down our exports on YoY basis and have increased our domestic sales.
Our sales in 3QFY15 went up by 5% in the domestic market and exports share reduced
from 34% in 3QFY14 to 29% in 3QFY15. We altered our strategy a bit on the sequential
basis on sequential basis the exports went up a little primarily due to the huge imports
in to the country. So, our exports for 3QFY15 was about 8,64,000 tonnes as against 7,91,000 tonnes in 2QFY15 but going forward we are moderating our exports.

As our CRM complex is ramping up, our value added product is going up. You would have seen in 3Q our value added and special products component has increased to 35%. We will continue to focus on these areas and try to increase volumes in this area and the component of export in value added would go up, the commodities space would be moderated.

Moderator: We have the next question from Jigar Mistry from HSBC, please go ahead.

Jigar Mistry: Two questions from my end, first we saw the sequential drop in realization the way we calculated which is steel revenues divided by salable steel sales that dropped only 700, would you rather indicate what is the like-to-like fall in realization in Q3 and therefore the VAP, value added premium and consequent to that what is the spot realization today compared to Q3 average and second question is regarding the policy action, now Mr. Rao did mention about your lobbying efforts and Sesa Sterlite yesterday mentioned their lobbying efforts in terms of getting the 30% export duty removed, so how do we read the total policy action in conjunction?

Jayant Acharya: Regarding the first question with respect to drop in realization – the drop in realization on year-on-year basis, what you are reading from the face of the results, is of about 800 odd rupees per tonne but the product mix has given us an additional delta of about Rs350, so the net drop was roughly about 500 odd rupees per tonne on year-on-year basis.

Jigar Mistry: That similar numbers on QoQ, did the domestic prices or the combined realization just fell by 500 rupees or rather 1000 rupees.

Jayant Acharya: On a sequential basis the realization dropped by almost 1400 odd rupees per tonne.

Jigar Mistry: What is the current realization versus Q3 average as it would have fallen in several months, so the average could have been a little higher?

Jayant Acharya: The prices have gradually declined over the quarter from October to December; therefore it is partly reflected in October-December results. In the quarter from January to March, the quarterly contracts have come in for re-negotiations, so the quarterly prices would see a downward change.

Jigar Mistry: If Mr. Rao can clarify on the policy action part?

Seshagiri Rao: As regards to second question on policy, for steel I have already mentioned three, four steps which the government hopefully should take to stop the dumping. As regards to iron ore, unfortunately domestic iron ore, which is the competitive strength of Indian steel industry, is in shortage today and also the iron ore pricing is not in line with what is happening internationally. So our principle, right from beginning, is that our resources, natural resources should be used for value addition within India which will boost the manufacturing sector and generate employment and revive the investment cycle. This is what exactly all the countries like Indonesia have been doing by ensuring that the resources are first used for domestic requirement. In that context we have a strong opinion that the duties on iron ore should remain if not increased and we should
not encourage export of iron ore, that is our view. So, we are strongly representing that this duty should continue. In fact because of the shortage of iron ore in India, mining companies are exploiting the shortage and they increased the prices by 14% when international prices have fallen by 48%. We are requesting the government to look at the inverted duty structure where steel from Japan and Korea is coming at 0% duty and we are paying duty on iron ore imports. Iron ore import duty should be removed, export duty should be continued, domestic iron ore supply should be increased and the dumping of steel in to India should be stopped.

Moderator: We have the next question from the line of Sujan Sanisetty of Axis Capital, please go ahead.

Nitesh: Sir I have two questions. Mr. Rao it would be really helpful if you can give us an update on the iron ore mining situation in Karnataka like the how much is the non NMDC production and what is the ramp up, this is number one and number two is again on the mining side post this new ordinance on the mineral regulation whereby the government wants to auction natural resource including iron ore when do you see the auction of iron ore happening or will it take a lot of time as unlike coal it is not a priority for the government, your interaction with the government or the officials, these are the two questions.

Vinod Nowal: Availability of iron ore in Karnataka is around 18 million this year, out of 18 million around 8.5-9 million from NMDC, 9 million is from other mine owners. This is going to be around 23-24 million tonnes next financial year against 18 million of this financial year. On C category mines, as per the Honourable Supreme Court directions to the Government of Karnataka to file the affidavit on how to auction theses mine to the Karnataka industries, the affidavit has been filed and CEC has also filed their affidavit. Once the Honourable Supreme Court approves the scheme of Government of Karnataka, then auction will take place for the C category mines. They are prepared to auction seven mines, immediately in two to three months and then another 8 mines of the C category (total 15 mines) will be auctioned. Regarding auctioning as per the new MMDR Act, it needs more clarification for state governments to decide actually how to go further on that.

Nitesh: Sir on this dumping of steel in India when you said like the steel industry is lobbying for the duty protection like for the flat products from 7.5% to 10%, theoretically even if they do then also the problem does not get solved because it is like only 700-750 rupees per tonne of price increase. Considering the CFR offers right now at like 400-420 dollars India, are you or steel industry asking for any major change in duty or any non-tariff measures.

Seshagiri Rao: First point is that we are not looking for protection. We are looking for measures to ameliorate injury to the domestic industry due to dumping. In that context whatever we have suggested also includes the quality order implementation. As you are aware that the quality order (issued by the Ministry of Steel, India) to comply with BIS quality standards is now implemented on TMT bars imports. Earlier it was not complied with; they were permitting the secondary steel to come in to India. We have been requesting please implement quality order not only for these 15 products but also for other 22 products. This is what every country is doing to ensure that their economy is built on the quality steel; not with inferior quality where it will not be sustainable for a longer time.
Second point is on dumping of steel in India. If you look at US, it has imposed more than 500% antidumping duty against Indian steel exports to US. We are providing all the data to the government to enable it to take quick action on this and to put either safeguard duty or antidumping duty on steel imports. If you compare the prices at which the steel is coming in to India with the prices at which they are selling in their domestic market that itself will clearly establish that there is dumping. So, there is requirement to take many substantial steps, just increase in the duty from 7.5% to 10% is not enough. We have suggested a series of measures which includes quality order, non-tariff measures, increase in custom duty, safeguard duty, antidumping duty, quota system, removing the steel from the FTAs, hopefully all together will be taken, that is our wish.

Moderator: We have the next question from the line of Pinakin Parikh from JP Morgan, please go ahead.

Pinakin Parikh: My first question is on the export market given that the very sharp decline which we have seen in the Chinese steel prices and Russian Ruble and given that JSW has had a meaningful exposure to the export market how should we look at export volumes over the next few months and what kind of pricing pressure, has the full $420 HRC price out of China flowed through this market or do you think that it will come in to export realization in the next couple of months and second is on the net debt picture, how should we look at net debt from here over the next few months given some of it is working capital driven, can we expect a decline or should we remain net debt to inch up from here given that Capex will still be incurred in Q4.

Jayant Acharya: On your question related to export market –fall in international price have partly played out. However our efforts have been to avoid a direct hit by differentiating our product offerings rather than the same products that the Chinese are bringing to the table. We are trying to foray into niche products – like in the US, we offer thinner much more than the thicker products where the Chinese are present. Similarly in the CRCA space, pickled and oiled space and the special products, we are trying to differentiate from them. Our focus is right now to alter our product mix towards the value added and moderate our exposure to commodity grades as much as we can.

As far as the transmission of price correction in to domestic market is concerned, I think we are not really looking at $420/t as a comparative to our product basket. If you have to look at the total cost, if you look at the tier 1 mills, they are not offering this kind of level while tier 3 mills (the smaller mills) maybe getting in to this kind of product and prices. There are certain issues with respect to quality of such offers. JSW attracts a slightly higher price than such offers. Some part of the spot prices fall already played out in October-December, and part of it is likely to play out in January-March. As I said, quarterly contract prices are coming up for negotiations; it is under discussions with all the auto majors and other quarterly customers.

Seshagiri Rao: On your second question related to net debt – we are trying to ensure that the net debt remains at the level as it was on December 31, 2014 if not come down. Thereby working on to moderate the Capex.

Pinakin Parikh: Net debt should remain stable over years over the next couple of quarters; we should expect net debt to remain stable Sir?

Seshagiri Rao: Yes, it is likely to be stable at 4QFY15 end sequentially.
Pinakin Parikh: Sir one more question going back on the steel prices, can we assume that the worst of the steel price cut that had to take place given the lower global prices we already saw in the October December quarter to that extent from here the March quarter the quantum should be lower Q-on-Q or can we expect a similar amount of 14-1500 quarter-on-quarter decline in ASP.

Jayant Acharya: Our realization declined about 1400 odd rupees in 3QFY15 on QoQ basis. However, we had quarterly price contracts which held firm during the quarter of October-December, it will undergo a change in January-March as the spot prices have corrected gradually over the last three months. But I think that the worst in terms of international prices has probably played out. If you see the equation in terms of cost versus the prices today, it seems the worst is over. But I have gone wrong in the past so in the sense of we thought that few months back also the worst was over. However, things overtook us with respect to the oil prices and with respect to iron ore prices. But we are hoping that the bottom has been touched.

Pinakin Parikh: Just one last question on your cost of iron ore from NMDC, there has been a substantial decline in spot iron ore prices globally obviously last year but even in Orissa in last one month but obviously NMDC has not cut prices to that extent, so how do we see this, is it that because NMDC is the largest seller of iron ore the prices have become inelastic or do you think that the government will have to intervene to make NMDC cut iron ore prices because NMDC prices are now on different pattern vis-à-vis even other domestic iron ore sellers?

Seshagiri Rao: For the last two years the situation is same where international prices were falling and NMDC did not reduce the prices but government did not intervene. So, we don’t expect the government to intervene but what we expect from the government is to increase the supply of iron ore in the domestic market by opening up of more mines in Orissa and also auction Category C mines in Karnataka. Then automatically prices will come down. Our expectation is that the supply of iron ore in India is going to improve in the next financial year. Then I think NMDC will automatically reduce the prices without any other option.

Pinakin Parikh: So it will flow through with the lag as soon as domestic production increases?

Seshagiri Rao: This we have already seen to some extent. In the case of Orissa, supply from private miners is improving that is why the prices of private mining companies have come down. That is the first indication that NMDC will also reduce the prices. So, I think supply is a guiding factor for determining the prices in domestic market.

Moderator: We have the next question from the line of Pallav Aggarwal from Antique stock broking, please go ahead.

Pallav Aggarwal: Question is on Welspun Maxsteel Plant from when will be start consolidating the numbers, will it happen in the next financial year?

Seshagiri Rao: We have already consolidated these numbers in these results. The consolidated results include a loss of Rs15 Crores on account of it. As we mentioned in our press release that GAIL suddenly decided that they will not supply the APM gas to both Dolvi Unit and also to the Welspun Unit that is JSW Salav Unit. In the case of Dolvi they gave an advance notice of 7 days whereas in the case of Salav they gave only one day notice. We had no
option except to take the shutdown of our Salav Unit in the last month of the quarter. But we immediately went to the court. We got a stay order as far as Dolvi is concerned. The supplies have resumed. However, in the case of Salav unit, we got a relief only yesterday. Now they would need to restore the APM gas supplies to the Salav unit. Therefore the unit is not working today. As of now we are evaluating that. Considering the current APM gas price, lower spot LNG price as well as the subdued demand scenario, we are evaluating whether to start back the Salav unit now or on completion of Dolvi expansion project (from 3 to 5 million tonnes). As the Salav unit will then be completely captive and its entire DRI production can be used within Dolvi itself. So we continue to evaluate that how much DRI from Salav we will be able to sell in the domestic DRI market at the current price of gas and iron ore pellets, and if it is not viable then we will start it in September of this calendar year.

Pallav Aggarwal: Sir the net debt level that you mentioned of 39,500 Crores will this be excluding debt that you would have taken for Salav plant?

Seshagiri Rao: Once I said that the results are after consolidating Salav, it means it includes the debt of Salav.

Pallav Aggarwal: Sir you mentioned DRI job works, what exactly it is like, are we supplying DRI to get converted, what exactly is the nature of this job work sir?

Seshagiri Rao: This is at Vijayanagar. As we have originally mentioned there is a 1.2 million DRI plant which has been commissioned by JSW Projects Limited. JSW Steel is supplying pellets from its Vijayanagar unit to it and we are getting it converted into DRI and using it into steel production. For this purpose job work charges are being paid to JSW Projects.

Moderator: We have the next question from the line of Dhaval Doshi from Philip Capital, please go ahead.

Dhaval Doshi: Hello sir just wanted to understand how do we see our iron ore sourcing mix going ahead given the significant correction in prices by Orissa miners, does it make sense to start increasing the proportion from Orissa and cut back on the other sources or how do we see that as in Karnataka imports and other states?

Seshagiri Rao: This is a very dynamic situation. In this quarter, if I really look at it, the proportion of the imported iron ore to the overall consumption is higher, more than 40%. For the first nine months it was below 30% - around 28%. So, we are evaluating that whether it will be same going forward. I iron ore prices have come down to $62-63/t and there is steep reduction in iron ore prices in Orissa in the last 30 days, therefore we will continue to evaluate the situation based on the landed cost at Dolvi unit, but our plan right now is to use imported iron ore around 30% of our total requirement until iron ore situation improves.

Naval Doshi: 30% for the full year you mean to say?

Seshagiri Rao: For the quarter.

Moderator: We have the next question from Bhavin Chheda from Enam Holdings, please go ahead.

Bhavin Chheda: Sir this debt number of Rs39,563 Crores does not include acceptances right?
Seshagiri Rao: Yes, it does not include.

Bhavin Chheda: If you can provide that number revenue and capital acceptances?

Rajeev Pai: Revenue acceptances are about $1,100mn and capital acceptances are about $325mn.

Bhavin Chheda: What was the landed cost of iron ore and coal in the quarter?

Jayant Acharya: Our blended coking coal cost in last quarter was about $131/t CFR.

Bhavin Chheda: Iron ore would be?

Jayant Acharya: We will not be giving you guidance on that because there are multiple units and use different composition of domestic and imported ore.

Bhavin Chheda: Okay, normally you provided of Vijayanagar, so you would not be sharing from this quarter, can we assume it would flattish quarter-on-quarter or higher or lower?

Jayant Acharya: We were sharing the Vijayanagar data till we were only sourcing domestically. From Q2 when we started importing iron ore and as Mr. Rao mentioned earlier this is very dynamic, overall iron ore cost will depend on how the sea-borne prices are moving and how the domestic prices are moving. Therefore we have stopped giving iron ore cost because if I just give you domestic iron ore price it will not make any sense. Therefore we have stopped giving the blended iron ore cost even from the last quarter itself.

Bhavin Chheda: Can we just interpret it; it would be more or less flattish adjusting for grade because if I see your raw material consumed on a per tonne basis is almost flattish quarter-on-quarter or would be marginally higher?

Jayant Acharya: This is very difficult for us to comment about, the way we have planned in this quarter is 30% imports.

Bhavin Chheda: So your consumption run rate is 30% of the total including Dolvi and Vijayanagar from imports?

Seshagiri Rao: 30% of total requirement of iron ore (for all locations together) will be sourced in the form imports, balance will be sourced within India.

Bhavin Chheda: This is for the quarter and first nine months right or this was for this quarter only?

Seshagiri Rao: Whatever continued for the first nine months we will continue for this quarter also? As I clarified the proportion is more than 40% for 3QFY15, if you take nine months it is 28% whereas in 4Q of this year it will be in the range of around 30%.

Bhavin Chheda: Sir you mentioned the Capex number for this year Rs7,500 Crores, it may end up slightly less, what would be the FY 2016 number we should model as of now?

Seshagiri Rao: On that we will come back to you in the month of May. Once we close the year we, will see what is the expenditure we have incurred against Rs7,500 Crores, it will definitely be lower, based on that we will be able to guide you for FY 2016.
Moderator: We have the next question from Rahul Jain from CIMB, please go ahead.

Rahul Jain: Just wanted to check how are you approaching the coal auctions, have you fixed up on a number as to what kind of coal block and what kind of reserves would you be comfortable with and also could you comment on any possibility of further consolidation. We have done acquisitions in the past and there is some stress, there are mills available out there, are you looking at that option too?

Seshagiri Rao: As far as coal auctions are concerned we are evaluating various mines. We have not still identified how many mines we will bid for but we will be bidding for both coking coal as well as thermal coal in this auction.

Rahul Jain: Any further inorganic acquisition is it possible?

Seshagiri Rao: We continue to evaluate but there is nothing that we can share as on date.

Moderator: We have the next question from the line of Navin Gupta from Goldman Sachs, please go ahead.

Navin Gupta: Sir you mentioned in an earlier question that the absolute net debt that you will be comfortable will be around the current levels about 39,000 Crores, so does that rule out any major acquisition which keep coming from time to time because any major acquisition would necessarily mean that the absolute net debt would increase any thoughts on that?

Seshagiri Rao: We are looking at this quarter. Our net debt at the end of the quarter will remain more or less at the same level, our internal threshold for gearing ratios of 3.5x and 1.5x will remain unchanged. We will continue to work to bring down these ratios and even in case of some acquisitions we will try to structure the transaction in a manner that we remain within the threshold.

Navin Gupta: Is there any absolute debt limit that you have in mind?

Seshagiri Rao: We don’t have any absolute number of debt because when the operations go up to 18 million tonnes I cannot say my net debt will remain unchanged, we can guide you only on the relative ratio basis. So, in this quarter, we are above the desired ratios and that is why we are moderating our Capex. We want to bring down the ratio.

Moderator: We have the next question from the line of Pratik Singh from Credit Suisse, please go ahead.

Pratik Singh: Sir will it be possible for you to the break up the iron ore sources for your various plants, Vijayanagar, Dolvi and all and what is the CWIP level?

Pritesh Vinay: We will not be able to do that. We would prefer you to look at it as one company, therefore we do not disclose location wise data whether it is iron ore sourcing plan or other matrices like EBITDA per tonne.

Pratik Singh: CWIP level Sir?

Seshagiri Rao: We will provide you.
Moderator: We have the next question from Raashi Chopra from Citigroup. Please go ahead.

Raashi Chopra: Just a question on pricing, where are we on domestic prices versus import parity now, are Indian prices adjusted to the recent correction that we have seen or that is yet to come?

Jayant Acharya: Some of the corrections have already come in October to December, so we have seen October-December corrections taking place in the spot market in India. As far as the quarterly prices are concerned they are coming in for correction in January-March. So that effect would fully play out in January-March. Spot prices may take some corrections in January-March beyond what they have taken in October-December.

Moderator: We have the next question from the line of Sumangal N of Macquarie, please go ahead.

Sumangal N.: Sir I have two questions, first if you could share the capacity utilization of the captive pellet and coke oven plant at Dolvi; just wanted to confirm if it is now operating at rated capacity and second there were media reports mentioning that JSW is planning to expand its cement capacity, so just wanted to know if there is any concrete plan as of now or is it still on the drawing board stage?

Seshagiri Rao: The use of captive pellets was 92% in the last quarter and coke was 97%, so both the plants are operating close to designed capacity. As regards to JSW Cement I think it is handled by JSW Cement management which is an independent company, so they will be looking in to expansion, JSW Steel is in no way connected with JSW Cement’s expansion.

Moderator: We have the next question from Ashish Kejriwal of Elara Capital, please go ahead.

Ashish Kejriwal: Sir just wanted to get the quantification of other expenditure when you told that this includes hedging cost as well as job work charges but I presume that must be included in earlier quarters also, why there is some sharp jump in that because acceptance is more or less what it was at the end of second quarter, in fact somewhat $100 million lower than that, so can you quantify the hedging cost in this quarter versus last quarter as well as job work charges on the incremental?

Seshagiri Rao: As regards to the hedging cost - majorly the iron ore imports started in the second quarter so when you do the hedging the full impact (for second quarter) has not come on the outstanding acceptances even though acceptances are more or less at the same level, the hedging cost was not fully reflected in the second quarter. The third quarter the full impact has come so our hedging cost in Q3 was Rs200 Crores as against Rs75 Crores in Q2.

Ashish Kejriwal: Do we continue to see this kind of hedging cost in consequent quarters also assuming similar kind of imports?

Seshagiri Rao: Yes, as we have been planning 30% iron ore imports then it will remain at the same level, if iron ore imports come down then it will come down.

Ashish Kejriwal: What about job work?

Seshagiri Rao: Approximately 70 Crores incrementally has come in Q3.
Ashish Kejriwal: Sir for our grade of steel although you mentioned that tier 1 or tier 3 mills in China they are not offering at $420 but for our grade of steel what is the landed price and at what premium are we still selling, spot prices, I understand about the quarterly contract but as on spot basis what is the difference between landed price and domestic prices for our grade of steel, HRC.

Jayant Acharya: Our grade of steel probably will be a misnomer because we will have multiple grades depending on multiple industries and end users. When you look at the imported commodity prices, where you are getting the number of $420/t, that is basically for the standard trade items or say lower end market import items.

Ashish Kejriwal: At what commodity grade import what is the landed price and domestic price, I mean to say what is the difference or premium which we are charging?

Jayant Acharya: Rather than putting it that way, I will say that the products of our kind would be roughly in the vicinity of $450-460/t.

Ashish Kejriwal: This is imported price, you are talking landed price?

Jayant Acharya: Equivalent.

Ashish Kejriwal: What prices we are charging right now on spot basis?

Jayant Acharya: That is what I am saying, it is equivalent.

Ashish Kejriwal: So they are at parity we are seeing there?

Jayant Acharya: Yes, as against $450-460/t, that is why I am not comparing with the bottom.

Ashish Kejriwal: Sir the point which I am trying to get a sense is that if the current global prices are sustained how much price cut we have to take in order to get parity for commodity grade steel?

Seshagiri Rao: As far as the domestic prices are concerned they are always aligned with the international prices. We have been explaining right from the start of the call that the imported prices which are there in the international market that is not what is determining the domestic prices, there is a huge amount of dumping which is happening in the domestic markets that is why we don’t expect the prices really reflect what is happening in the international markets, we have been working how to stop the dumping that is the major concern today, assuming that the dumping won’t take place in India then the prices in the Indian market downside is very limited from here.

Ashish Kejriwal: You can only suggest to the government but at the end of the day government has to take that action, so assuming that government does not take any action for a short period of time also then what could be the difference?

Jayant Acharya: Maybe 3 to 4% is what would be there.

Moderator: We have the last question from the line of Bhavin Chheda from Enam Holdings, please go ahead.
Bhavin Chheda: Sir you mentioned of bidding in for both coking coal and thermal coal, why would you bid for thermal coal from JSW Steel Sir?

Seshagiri Rao: We have the captive thermal plants of almost 600 megawatt at Vijayanagar, similarly there are two plants of Ratnagiri which are captive to JSW Steel; these two we can bid for it.

Bhavin Chheda: So you are mentioning 600 at Vijayanagar and two plants which are in JSW Energy right which are at Ratnagiri which are used by JSW Steel?

Seshagiri Rao: They are also captive units.

Bhavin Chheda: You may bid for that but you will have to bid in the forward category right, not in the reverse bidding category?

Seshagiri Rao: It is unregulated sector therefore we have to go for forward bidding.

We have the data on CWIP, standalone CWIP as on December 31, 2014 was Rs7,700 Crores, and consolidated was Rs8,200 Crores.

Moderator: Thank you Sir. Ladies and gentlemen, that was the last question. I would now like to hand over the floor back to Mr. Sanjay Jain for closing comments. Over to you Sir.

Sanjay Jain: Thank you very much. Pritesh would you like to make some closing remarks?

Pritesh Vinay: Thank you very much for taking time out for this call, in case there are any more follow ups please feel free to contact me and/or Sandep Agrawal and we will be happy to revert to you. Thank you very much.

Moderator: Thank you Sir, on behalf of Motilal Oswal Securities Limited that concludes this conference, thanks for joining us and you may now disconnect your lines.