

“JSW Steel Limited – 4QFY15 Earnings Conference Call”**May 15, 2015, 5.30pm, Indian Standard Time**

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

Call host: **Mr. Kawaljeet Saluja, Head of Research, Kotak Institutional Equities**

Moderator: Ladies and Gentlemen, Good Day, and Welcome to the JSW Steel 4QFY15 Earnings Conference Call hosted by Kotak Institutional Equities. 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 this conference, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand over the conference to Mr. Kawaljeet Saluja from Kotak Institutional Equities. Thank you and over to you sir.

Kawaljeet Saluja: Hi, everyone. This is Kawaljeet Saluja from Kotak Institutional Equities. It is a pleasure for us to host this call. We have with us Mr. Seshagiri Rao MVS from JSW Steel to discuss 4QFY15 Results. I will now hand over the call to Pritesh, over to you Pritesh.

Pritesh Vinay: Thank you Kawaljeet. Good Evening everyone. On behalf of JSW Steel, I welcome all of you to this earnings call to discuss the 4QFY15 Results.

We have with us 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; Dr Vinod Nowal, Deputy Managing Director and other senior members of the management team.

So in order to keep the format efficient, I will hand over the floor to Mr. Rao who will spend a few minutes in giving key highlights of the performance of the quarter and then we will dive straight into Q&As.

The Presentation, Results, and Press Release are already uploaded on the website; I am sure all of you have gone through it. So without much ado, I would hand over the floor to Mr. Rao for his opening remarks. Thank you.

Seshagiri Rao MVS: Good evening to everybody. I welcome you all to the briefing of 4Q and full year performance of JSW Steel. The performance of JSW Steel should be looked in to the context of the challenging environment in which we are operating. Worldwide, the steel demand for the calendar year 2014 has grown just 0.6%. And at the same time the demand in China has come down (first time since 1995), we have seen that the demand has fallen by 3.3%, almost 30 million ton. These are the two structural changes which have happened in the steel sector which has resulted in China exporting much higher volumes of steel at any price. So, their exports have increased from 66 million ton/yr to 100 million ton/yr whereas global steel demand has grown only by 6 million ton in the entire calendar year of 2014. Steel prices have

fallen by 28% from April 2014 to March 2015. Iron ore prices also internationally have fallen by 50%, coking coal price have corrected.

However, as far as India is concerned, the demand has grown only by 3.1% and at the same time the Indian steel imports into India has grown by 71% which is a substantial jump. With Indian Rupee being very stable relative to other currencies because of the dollar strengths, the steel exports from India have fallen by almost 8%. So exports have fallen, imports have increased quite substantially, the domestic demand has grown by only 3.1%. So this is the context in which we had to operate and deliver the results.

One more very important element which has put pressure on the margins is the iron ore prices in the domestic market. Though the international prices have fallen from 114 to 57 from (on point to point basis) April '14 to March 2015, Indian iron ore prices have come down only by 15% because of the shortage and scarcity in India. So, the fall in prices of steel is disproportionate to the fall in local iron ore prices, this has also put pressure on the margins.

In spite of these challenges, JSW Steel could cushion this impact by increasing its value added product segment in the overall sales –we have increased value added products share from 24% in last year to 33% on full year basis, we have increased it to 34% in 4QFY15 from 27% in the corresponding quarter of last year. But this impact has not cushioned the full impact of the cost of production due to iron ore.

For the Q4, the production and sales number was slightly lower or flat at 3.06 million tons. The EBITDA margins were 15.3% which have fallen relative to the corresponding quarter last year. It is majorly attributable to the cost of production and the fall in steel prices. We have posted net profit of Rs.188.73 crores on standalone basis. We have also made a provision towards diminution in value of investment based on the fair value of our subsidiaries particularly US to the extent of Rs.105.17 crores.

On a consolidated basis, the net profit in Q4 was Rs.62.38 crores. As regards to our subsidiaries, particularly the JSW Steel coated products, we had an EBITDA of Rs.58 crores and similarly at the Amba River Coke Limited (ARCL) we have posted a positive EBITDA.

Then as far as our overseas operations are concerned, Chile has posted a negative EBITDA due to the sharp drop in international iron ore prices. There was a very insignificant EBITDA (\$0.13 million) at US plate and pipe mill as steel prices fell in the US too. So overall together, the EBITDA on a consolidated basis was Rs.1682 crores and the net profit was Rs.62.38 crores.

We had given the guidance of Rs.12,000 crores in the last year (to be spent over FY15 & FY16), we have spent Rs.5600 crores in FY15. We have reviewed the balance capital expenditure to be incurred where the payback period is a little higher than 24 months, we have cut that cost. Then we have looked at the new projects which can give quick returns. And we have decided to take three new projects – to be completed over a period of two years: 1) At Vijayanagar we have guided earlier that BF1 ramping up we will be doing in this year, that will increase the capacity, but for

the downstream facilities to handle the hot metal and to process the hot metal we need to spend on the melt shop and also the rolling mills, so that expenditure we'll be incurring and thereby the capacity will be full from 10 to 12 MTPA at Vijayanagar, 2) Similarly at Salem unit which has , two blast furnaces - the BF1 and BF2, they are coming up for re-lining. We will use this opportunity to increase the capacity from 1 MTPA to 1.25 MTPA. 3) We are seeing a lot of potential for tin plates, so we'll be setting up a 200,000 ton tin plate facility at one of our downstream units in Maharashtra,. So, we will incur a total Capex of Rs.9000 crores over next two years on all these three together plus carry forward expenditure including the expansion at Dolvi from 3 to 5 MTPA. Out of the Rs.9000 crores, we'll be spending Rs.5200 crores in this year, Rs.3800 crores in the next year.

Going forward in India, we are seeing certain green shoots, particularly in automobile sector and also long products. We are seeing some improvement in the market. Taking that into account and also the WSA guidance of 6.2% increase in the steel demand for India, we are giving the guidance of: 1) crude steel production of 13.4 million tons in FY16 compared to the production of 12.63 million tons in FY15, showing a growth of 6% and 2) saleable steel sales of 12.9 million tons in FY16 compared to the sales of 12.03 million tons in FY15, showing a growth of 7%.

We believe that the two three levers, which will drive our profitability in the current financial year. One is that we are expecting the iron ore situation in India should improve. So this more supply of iron ore by way of renewal of existing leases and also auctioning of the mines pursuant to the MMDR amendment bill where the draft rules are getting finalized. These two things would increase the supply of iron ore in India. Mining companies will also be reducing the iron ore prices, they have marginally reduced prices (by Rs.500) in the last month, and we expect further reduction of iron prices. So these things should reduce the cost in the current financial year as regards to iron ore. In addition to that, we are looking to improve the top line by volume growth and also by changing the product mix. So we want to increase the share of value added products sales, which has already been increased to 33% in FY15 as per our guidance, to 37%. So with this we're working towards to improve our EBITDA margin. The third driver is reduction in logistics cost, where we can reduce the cost in terms saving in our procurement cost.

So iron ore sourcing in India which can reduce the cost, improving our value added product mix which will improve our margins and savings in the logistics costs, these are the three areas which we identified as the drivers in addition to volume growth of 6% in production and 7% in sales.

As far as the Capex funding in FY16 is concerned, out of the total Rs.5,200 crores, Rs.3,400 crores will be in the form of debt, and Rs.1,800 crores we will finance out of internal cash accruals; but the overall debt will go up very-very marginally next year where we will have repayments of Rs.2,900 crores. So the net debt will not go up substantially compared to what it was at FY15 end except this marginal difference which is there between what we are repaying and what we are raising.

As the presentation is with all of you, now I open up the forum for any clarifications you need.

- Moderator: Thank you very much. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Navin Gupta from Goldman Sachs. Please go ahead.
- Navin Gupta: Two questions from my end. One is, you have taken about Rs.100 crores write down on your US plate and pipe mill so what is the carrying value post the write down on the US assets on our balance sheet?
- Seshagiri Rao MVS: No, the way write down has been provided in the books, whatever fair value that has been worked out as per valuation, the differential has been provided. If you look at right from quarter one, we have been providing the losses whatever is being incurred. So the cumulatively we have provided Rs.333 crores for the year as a whole. The carrying value is Rs.6,000 crores.
- Navin Gupta: So my question is do you see a risk to this number given, if I look at the EBITDA even in this quarter it's pretty much negligible with the US plate and pipe mill. And if we look at most companies in the US have been cutting Capex on this and related to this is, if we take large write down on this is there any covenants that could be breached because of this debt to equity?
- Seshagiri Rao MVS: No, we have changed the management team in US and in fact the person who has taken over as the CEO of the company, has worked earlier in AK Steel, he has a very good experience in turning around the units. In the US we expect the things to improve. The capacity utilization during the year was at 36% in the plate mill and 10% in the pipe mill, we are planning to increase the capacity utilization in the plate mill from 36% to 50%, similarly in the pipe mill from 10% to 20%. So we expect that things will turnaround in the US, there is no need for a big impairment as far as the US operations are concerned, but we will be definitely watching that how does it pans out in the future and we will keep you updated on that.
- Navin Gupta: Sure. Sir can you share the debt equity limits, the covenants at a consolidated level?
- Seshagiri Rao MVS: 3.75x for net debt to EBITDA. It is not at consolidated level, we have no covenant at consolidated level as we clarified earlier also, it is only for the standalone company. Similarly, the as far as the net debt to equity concerned it is 1.75x.
- Navin Gupta: Okay, sure. Sir my other question is on the production guidance and sales guidance which you have given. If you look at FY15, our sales has been up about 1% Y-o-Y and we've guided for about 7% growth in FY16. As you mentioned in the opening remarks we have seen significant pressure from exporting countries like China and Russia and we've not seen meaningful pick-up in demand in India and if you look at the steel industry in India you are seeing some major capacity expansion by competitors, do you think that this growth can come without pricing pressure in the domestic market of 7%?
- Seshagiri Rao MVS: One point I wanted to highlight is that we gave the guidance of 12.9 million ton of production and 12.4 million ton of sales in the last year, and if you look at our performance in spite of the challenges which I have outlined in the beginning, our achievement is 98% in terms of production and 97% in terms of sales. Taking that into account and also the guidance given by the World steel association (of only

0.5% increase in the steel consumption worldwide and a 6.2% in India), we have also moderated our exports expectations in the financial year and we have taken that in to account that we would need to sell more in the domestic market.. We are not saying there will be a huge amount of turnaround in the domestic market, so it will be in the range of 5% to 6% increase in the domestic market. With that we are giving a guidance of only 6% in production and 7% in sales. We are reasonably confident that we will be able to achieve this guidance. Jayant can add on this.

Jayant Acharya: So if you see the products which are going to enter the market this year vis-à-vis last year, the delta will be mostly longs, major chunk will be longs and that will be again in the TMT bar space. And the other delta will be in the form of cold rolled products sales which is going to increase post commissioning of our CAL -2 as well as the other new product which we are getting into the market is going to be electrical steel, our electrical line has just started in April. We are getting approvals for the galvanized products which are also going into auto outer part/bodies, there under various stages of approval. So there will be some new products and there will be a scale up of the cold rolling mill which will go into auto as well as non-auto. In the long space, the rebranding of our TMT has really helped us in terms of brand penetration as well as market penetration, so we are seeing some upside on that and with the addition of the new mills we expect our volumes in longs to go up. We are seeing some uptick, if you see the India consumption increase last year, it has been about 2 million tons but actually the flat products went down by 6% whereas longs went up by 10%. So that's an areas where probably we see some space, the secondary sector is not doing so well. The brand, the quality consciousness which people are now having I think will enable us to better in longs as well.

Navin Gupta: Alright. And if I may just follow-up on that, the incremental guidance of about 0.9 million ton, can you share roughly the split between long products and the value added products on the flat side?

Jayant Acharya: So about 50% will be longs and 50% will be flats of this incremental quantity.

Moderator: Thank you. Our next question is from the line of Saumil Mehta from IDFC Securities. Please go ahead.

Saumil Mehta: Two questions from my side. First is, if I look at the consol minus standalone EBITDA, there is 180 crores loss, so just want to understand is there any one offs over there?

Seshagiri Rao MVS: No, there are no one offs.

Saumil Mehta: Sir I am looking at the EBITDA line to EBITDA line number, so consol EBITDA is about 1683 vis-à-vis standalone is about 1862. So I think there is a 180 crores loss at the consol minus standalone now. About 20 crores, 30 crores is because of decline in Chile, US and coated but that still leaves it about 140 crores, 150 crores of loss, so just want to understand.

Pritesh Vinay: I think there is some error in what you are looking at, if you look at the consolidated EBITDA, it is 1683 crores for the quarter but the standalone EBITDA is 1673 crores, so there is a difference of positive 10 crores if you look at consol minus standalone.

- Saumil Mehta: Okay, maybe I'll do the addition at my front. My second question is on the Capex number, now just want to understand, do we have any more Capex in terms of coke oven at Vijayanagar because we have announced Capex for BF and this quarter for SMS, so do we have extra Coke oven facility and some other ancillary facility which may be required?
- Seshagiri Rao MVS: Coke oven plant expenditure is not part of the JSW steel Dolvi, so it is not there. And there is no coke oven expenditure at Vijayanagar too, we are talking about blast furnace modification, we have already announced Rs.750 crores expenditure last time for this revamping. So, we are incurring the balance expenditure in the melt shop and the rolling mill, it is not in the coke oven.
- Saumil Mehta: Okay fine. And sir just want follow-up on that, especially in the increase Salem, so just want to understand our existing facility any which ways are operating at between 80%, 85% utilization levels and given the decline in steel demand for the next couple of quarters what are our plans, I mean is there any specific reason to announce an additional capacity at this point in time? I don't know; just want to understand the thoughts on the decision making.
- Seshagiri Rao MVS: No, at Dolvi we have already taken up expansion from 3 to 5, it is in a very-very advance stage, so that we will complete. And as regards to the Salem unit I mentioned in my opening remarks, those two blast furnaces are coming up for relining. When they are coming up for relining we are using that opportunity as any how we have to incur the expenditure for the realigning. So, we are increasing capacity marginally by 250,000 ton from 1 million ton to 1.25 million ton. And the rolling capacity is not matching, so we are spending money for increasing the rolling capacity that is what we are actually doing in Salem. Third one is tin plate, tin plate is required considering the good demand and this is the product where we can get incremental margins.
- In Vijayanagar, we had announced blast furnace revamp; there we have kept everything ready. Once we increase the capacity during the year then we should be able to process the incremental hot metal, so that is what we are incurring, there is nothing additional then 18 million ton which we have announced earlier, it is 14 million ton to 18 million ton, 2 million at Dolvi and 2 million at Vijayanagar; 2 million we are completing, 2 million ton incrementally we are spending money to add the short-fall facilities or balancing facilities to process the hot metal.
- Moderator: Thank you. Our next question is from the line of Jigar Mistry from HSBC. Please go ahead.
- Jigar Mistry: Two questions from my side. First is on pricing, if Mr. Acharya or Mr. Rao could answer, I understand that on a like-to-like basis we have chosen to keep the Indian steel prices at a premium both to China and the CIS. Is that a conscious strategy to forgo volumes, allow higher imports and keep the pricing at slightly elevated levels? Connected with that, if you can also answer on what is the status of the lobbying efforts today because we saw the export duty reduction on the iron ore also to the extent that does not hurt the steel industry. If you can update on that please.

Jayant Acharya: Yes Jigar, as far as pricing is concerned, we are looking at the pricing on segment to segment basis. So when you are talking about the steel imports from China and Russia, impact of those imports is felt more by the bigger importers which may be mostly the cold rollers and the tube makers. If you look at the auto segment where it is difficult for them to really having the visibility beyond two three months, they would want localization, they want just-in-time supply, they are operating on a quarterly or a half yearly kind of pricing. The third category is the project based or the contractual pricing where you have a fixed quantity with a visibility which the project has, so they have a fixed price mechanism. So we are looking at all these things separately, the fourth one is on the monthly price/the spot price which goes in the trade market.

As far as the importers are concerned, we are trying to tackle that with them on a situation that we are as close to the landed price as possible, not the price of booking today but what we are basically telling them is if you were to import you would get the material two months down the line, our prices would be similar to what you would get, given the fact that rupee is volatile there are downsides to importing as well, plus you don't have the visibility of what you would require after two months. So the importer calculates and gives you a delta which he thinks is viable. As far as auto is concerned, I think we are continuing to deal with it on a quarter to half yearly basis negotiated with the auto makers. And on a project basis it's again a negotiated price which is basically goes most into longs or water pipelines or again oil and gas pipelines, these are project to project base. The retail moves on a monthly price basis and that's again in relation to the market prices which are there for the month.

Jigar Mistry: So Jayant, if you look at the scenario as is today, do we see a pressure on the portfolio or the bouquet of products that we offer, on a blended basis is there a downside pressure?

Jayant Acharya: Yes, so some of the products where the imports, as I was saying the big importers, there if they perceive that the price fall has dropped then I think the inclination to import would go down. But today the problem is that Russians with their currency being devalued have also entered, although the Chinese drop had actually stabilized and we are seeing Chinese prices stabilizing at around between \$385 -395/t. But the Russians have entered the market with slightly lower numbers, so there is some kind of a pressure on that account from some of the importers, but these are limited tonnages which have entered with that pricing in the market. So we will watch and see how that reacts.

The automotive, anyway we are correcting for the half year and for the quarter, some of the negotiations have already been done and some part is on way.

Seshagiri Rao MVS: So one more point is here that, we have commissioned CRM-2 as well as our electrical steel plant at Vijayanagar, so these two together are in line with our guidance about increasing the share of value added products. So we'll be able to sell these products, not the simple commodity grade product which can have more import pressure. I don't think that the pressure on these products will be there due to imports.

- Jigar Mistry: Right sir. I have more questions and I will join the queue, but just in the current line of thought, has boron been replaced by chrome already by the Chinese exporters?
- Jayant Acharya: There was a move by them to do that, but I think there are quality concerns which have been raised across various parts of the world including India, so some quantity came in but then it is restricted.
- Moderator: Thank you. Mr. Parekh, your line is unmuted. Please go ahead.
- Pinakin Parekh: Two questions. Just first, can you give us a sense of how things stand as of today, given that steel prices and iron ore prices have been moving very sharply. Compared to what was reported in for the end of March, where would current realizations would be and where would the current cost structure broadly, I mean how much would have the iron ore cost fallen?
- Seshagiri Rao MVS: No, iron ore prices as you know that the NMDC has reduced the pricing by Rs.500 per ton but we do not see a big correction of iron ore costs in at least 1Q results because there will be opening balance of iron ore inventory with us which we imported or we have bought in the auctions, but we will definitely see the reduction in iron pricing getting reflected partially in this quarter, the balance in the next quarter. As regards to pricing of steel, Jayant will answer.
- Jayant Acharya: Yes, on the pricing of steel for the quarter, is that your specific question?
- Pinakin Parekh: I mean where are we right now versus what the blended realizations that have been reported for the March quarter?
- Jayant Acharya: So I think it's basically heading towards stability and as we are increasing our value added product base with CAL-2 commissioning there, the volume of HR which is more volatile is getting converted to cold rolled and galvanized, so that pressure would go down. But I see a move towards stability, but in the month of April or in the quarter there have been corrections as I was talking about with respect to the auto makers for the quarterly contracts and in some cases of the bigger importers for the spot based/import based pricing in April.
- Pinakin Parekh: So blended realizations should still be down in the June quarter?
- Jayant Acharya: Maybe marginally, yes.
- Pinakin Parekh: Second, just tie it with the margin picture, I mean when we look broadly at the Capex number, it's 5,200 crores guidance for FY16 and in FY15 the CAPEX done was 5600 crores, now if you look at net debt on a consol basis it did move up by roughly 2000 crores on a year-on-year basis, and even assuming margins move up sharply from here, would it be fair to assume that net debt on a consol basis given the Capex plan that is there should see at least a similar increase going forward in the next 12 months?
- Seshagiri Rao MVS: As far as the overall debt increase from FY15 to FY16 is concerned, we have guided Rs.5,200 crores of Capex in FY16, out of that we will raise Rs.3,400 crores by way of debt and Rs.1,800 crores out of internal cash accruals. We are also repaying Rs.2900

crores in the current year, so on net-net basis there is a Rs.500 crores increase in the debt from FY15 to FY16.

Pinakin Parekh: Sure. And just lastly on Capex, you did mentioned at the beginning of the call that there were some projects which have been put on the back burner, can you give us a color of what are the projects that the company has decided not to go ahead in terms of spending over the next 12 months and which could come back as and when the environment improves?

Seshagiri Rao MVS: Yes, so for instance last time we were saying, Chile we will set up a wet based beneficiation plant, we have dropped that. Similarly we said Rhone Coal Block we are spending money, we stopped that. We have stopped spending on Ankua Iron Ore Mine. Similarly the normal capital expenditure at various sites, we have reviewed that, where payback is more than 24 months we have dropped them. So these are the kind of expenditure, some will not incur like Chile wet-based plant unless situation improves. These are the kind of expenditure which we have identified and then reduced.

Pinakin Parekh: Okay. So fair to conclude sir that basically Capex on steel capacity addition plans have been continued, but most of the upstream projects have been put on hold for the time being?

Seshagiri Rao MVS: Yes.

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

Anuj Singla: Sir, my first question is on the iron ore supply outlook in Karnataka, could you give us a sense on what is the kind of production you have seen in FY15 and what is the kind of increment, which you expect in FY16 given that new mines have opened up there? And also, what is the kind of iron ore mix we should be expecting in FY16, I think there should be definite decline in import component, so what that component could go down to in FY16?

Seshagiri Rao MVS: In the FY15 the total production was around 19 million tons in the Karnataka which, we expect, will go up to 24 million tons. So we are expecting that there will be a 5 million tons extra production in the state of Karnataka. So if it is 24 million tons, then taking into account whatever iron ore imports we have already made and which is there in the opening stock, we may not import iron ore for our Vijayanagar. This is what we are planning, we're working out for Vijayanagar to source this iron ore out of this 24 million plus opening stock, and we should be able to meet our guidance. As far as Salem and Dolvi is concerned, it is a dynamic market, if prices come down in India, it would make sense source either from Orissa or NMDC and we will not import. If import prices turn out to be cheaper then we will import iron ore for Dolvi and Salem. So it will be dynamic situation for Dolvi and Salem but as far as Vijayanagar is concerned we are not planning imports in this year.

Anuj Singla: Understood sir. Sir my second question relates to our product mix I think which remains critical for offsetting the pricing pressure, could you give us an update on what is the status of approval process that we are pursuing with the automobile

companies for our cold rolling mills which has just been commissioned. When can we expect the benefits to start flowing through from the higher margin from this mill?

Jayant Acharya: Some of the products from CAL-1 have already gone for approvals for various stages, some of the approvals have just come in, so press trials are on. And some customers, the approval process is still on, it would take a few months, I would say that the main benefit would start trickling in from the second half onwards.

Anuj Singla: Okay. And Mr. Acharya, will it be possible to give idea of the kind of volumes we will be targeting in the second half to automobile from this line?

Jayant Acharya: It will be difficult to do that now, because it will again depend on vehicle-to-vehicle off take and for the part for which it is approved.

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

Dhaval Doshi: Sir, just a couple of questions. First of all with regards to the coking coal prices, when do you see the benefits start coming through, so the spot prices have come down to \$80 so do we see these benefits immediately coming through for the spot portion of our portfolio or that is still a while away?

Jayant Acharya: Yes, so the coking coal index as you rightly said has dropped. Last time we had given a coking coal blend guidance of about \$125-\$130/t CFR, for January-March. For this quarter April-June I would say that may be a \$5-\$6/t drop is something which we would see. Last quarter we were somewhere in the middle of what we guided you and we could see a further \$5-\$6/t drop in April-June. If the spot continues to fall then July-September would see further the drop.

Dhaval Doshi: Okay. So Q2 is when you will see the major benefit coming through?

Jayant Acharya: Yes.

Dhaval Doshi: Secondly, also Mr. Rao mentioned about some cost savings which was a big amount, can you quantify and what would be the areas?

Seshagiri Rao MVS: Other than iron ore and coal if we look at it, there are two three areas where we can get some savings, particularly the procurement of other material like either you take zinc or you take ferrous alloys or aluminum ingots, there are several items of that nature where the prices have come down in the market, we will be able to source that at a lower prices, so we have taken savings on that account. Similarly logistics side if we look at, there is lot of money being paid in the form of demurrages and also the idle charges for the railways, demurrages at the ports, the shifting from rail to road wherever rail freight is higher; we have identified some areas where we will be able to squeeze the savings. The other area which we have identified is the operational improvements, the yield improvement, fuel efficiency; these are the areas which we identified in the operations side. So all these three together we are expecting significant savings to come in.

- Dhaval Doshi: Okay. And sir lastly, our interest cost is down this quarter, it's on a sequential basis, any specific reason?
- Seshagiri Rao MVS: As far as this quarter is concerned, we have done some refinancing in the last quarter, last quarter means prior to January so the impact of that reduction in the cost due to refinancing, that impact is coming in this quarter partially.
- Moderator: Thank you. Our next question is from the line of Kamlesh Bagmar from Prabhudas Lilladher. Please go ahead.
- Kamlesh Bagmar: Sir, just one question with regard to the margins which we have been doing like say in the first half of the FY15, so in order to achieve that particular margin level or like say Rs.7000 levels and given the prices remain there at the same level, so what could be the key drivers for that, could we be able to reach those margins levels like say 7000 odd levels, the way the iron ore prices are currently in India? And there seems a little concern amongst the miners as well that prices have relatively bottomed out in the domestic market, yes Rs. 100-200 here and there could be there but do we see that margins to reach to going forward?
- Seshagiri Rao MVS: Yes. As we mentioned in the beginning, the major reason for fall in margins is iron ore, domestic iron ore prices have not come down in the last year. In fact the major reduction, which NMDC has done, was only in the April'15 by Rs.500/t. We are seeing that the off-take of iron ore from NMDC and other mining companies is not on expected lines by them, that is as per our anticipation, we expect the further drop can happen in the iron ore prices so that will give us the benefit in addition to whatever I have mentioned about improvement in the value-added product mix and volume driven growth plus other savings which we expect to get. This price benefit of iron ore due to more supply of iron ore in the domestic market, domestic sourcing of iron ore from Vijayanagar plus drop in iron ore prices, these are the three areas where we can improve our margins further.
- Kamlesh Bagmar: Secondly, with respect to the volumes, like the volumes which we have guided, how much is the breakup between the exports and the domestic sir?
- Seshagiri Rao MVS: Exports in the last year as a whole were 26% of our total sales, whereas in this year we are planning to have exports at about 16% of our total sale guidance. We are moderating our exports and focusing more on the domestic market.
- Moderator: Thank you. Our next question is from the line of Giriraj Daga from Insync Capital. Please go ahead.
- Giriraj Daga : Sir first question on iron ore cost, what was the iron ore cost during this quarter and what was in quarter three?
- Seshagiri Rao MVS: Iron ore now being procured from different sources imports, Orissa, Chhattisgarh plus Karnataka and also we are buying different types of iron ore, low-grade, high-grades, lumps plus fines so it is a very difficult to give one number. But anyhow, iron ore prices have not come down, that is only the guidance we can give as far as Q4 is concerned.

- Giriraj Daga : Okay. The idea of asking was like international iron ore price corrected in the last quarter so the effect will be visible in the quarter one of that, is that right assumption?
- Seshagiri Rao MVS: Quarter one, yes, to some extent, but as I mentioned to you we already bought iron ore.
- Giriraj Daga : Sir I am talking about the imported part only, NMDC part I understood that NMDC will be visible in quarter two, but the imported part should reflect in quarter one?
- Seshagiri Rao MVS: Yes.
- Giriraj Daga: Okay. And sir my next question is, if you keep our operations closed at Chile, so what kind of loss we can see like overhead cost?
- Seshagiri Rao MVS: Chile, as I mentioned to you in this year the opening stock which we have as on 1st of April, that has to be sold at a loss. In addition to that, we will have approximately \$1.5 million of administration cost.
- Giriraj Daga : For the year?
- Seshagiri Rao MVS: Yes.
- Giriraj Daga : Okay. Just last, what is the capital CWIP for the quarter or the year end?
- Seshagiri Rao MVS: Rs.8,700 crores CWIP.
- Moderator: Thank you. Our next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.
- Bhavin Chheda: Sir few questions, how much was the debt repayment maturity within one year to get the exact net debt number?
- Seshagiri Rao MVS: Our repayments are Rs.2900 crores.
- Bhavin Chheda: No, not in the balance sheet sir, debt repayment within one year which are included in current liabilities?
- Seshagiri Rao MVS: Just one minute.
- Bhavin Chheda: Maturities within one year which is in current liability.
- Seshagiri Rao MVS: Bhavin you are asking for FY16 right?
- Bhavin Chheda: No, which is there in balance sheet which is to be added to the net debt number, your net debt is 35805, so in current liabilities maturities within one year which we normally add to the debt figure.
- Seshagiri Rao MVS: But Bhavin the net debt would include that.

- Bhavin Chheda: Yes surely, 35805 is including that number?
- Seshagiri Rao MVS: Yes.
- Seshagiri Rao MVS: Yes, of course.
- Bhavin Chheda: Okay. Other thing is the acceptance number if you can share and how much is capital acceptance and revenue acceptance is?
- Seshagiri Rao MVS: Yes, we have \$1,427mn revenue acceptances and \$351mn capex acceptances on on standalone company.
- Bhavin Chheda: \$1427 million and out of that revenue acceptance you said is?
- Seshagiri Rao MVS: \$1427mn on account of revenue, \$351mn on account of Capex, and this is on standalone basis.
- Moderator: Thank you. Our next question is from the line of Pallav Agarwal of Antique Stock Broking. Please go ahead.
- Pallav Agarwal: Just want to check on the gas sourcing for our new Salav plant, so I think earlier we had some issues about the APM gas availability, so is that being resolved now since we are considering restarting the plant?
- Seshagiri Rao MVS: We have already started it in the month of March, so that way whatever commitments are there for the APM gas, we're getting that gas in Salav. With that we have started the unit but we're operating only around 40,000 tons to 50,000 tons a month, so we can increase the capacity to the full once our expansion at Dolvi starts in the second half of this financial year.
- Pallav Agarwal: Okay sir. But you are not facing any gas sourcing problems at Dolvi for the gas part?
- Seshagiri Rao MVS: No, as regards to Dolvi APM gas is not enough for us to produce the DRI, that's why balance we are buying in the market.
- Moderator: Thank you. Our next question is from the line of Ashish Kejriwal from Elara Capital. Please go ahead.
- Ashish Kejriwal: Sir, first of all if you could give us the EBITDA figure for Amba River, is it loss making this current quarter or have we made any profit at EBITDA level?
- Seshagiri Rao MVS: No, this is positive which I mentioned to you. In the ARCL we had an EBITDA for the quarter of Rs.66.28 crores and for the full year it is Rs.175.79 crores.
- Ashish Kejriwal: Okay, fair enough. And sir secondly, when I am looking at your volume guidance and looking at your domestic market where we are seeing around 10.8 million ton which is 22% growth Y-o-Y and in terms of absolute numbers if I am looking at, it's around 1.9 million ton and if we are referring to the World Steel Association also, this approximately means 40% of the incremental Indian demand in FY16 will be catered by you?

- Seshagiri Rao MVS: No, the point is like this, that the net global demand increase will be 7 million ton from 1537 to 1544, it is not the total demand increase.
- Ashish Kejriwal: In India they are talking about 5 million ton actually.
- Seshagiri Rao MVS: Correct, as far as India is concerned it is 5 million ton.
- Ashish Kejriwal: Yes. So out of 5 million ton what I am looking at is you are guiding for around 1.9 million ton which is 40% of the incremental demand.
- Seshagiri Rao MVS: Yes.
- Ashish Kejriwal: So I was just wondering whether we are seeing that in long product other secondary manufacturers still cutting their production further or where we are seeing the growth?
- Jayant Acharya: So it's a combination of two, three factors. One is that the CAL-1 and CAL-2 approvals which are now going to kick in, that would be an import substitution because of the localization for the auto. Similarly, this is the case with galvanized products. The other product which we are adding to the kitty is also electrical steel which would again be an import substitution. On the long side, one factor as you rightly said is the secondary production going down because of not being viable and the second thing is the quality consciousness and the preference for a branded product from the primary steel producer which is making the primary steel more amenable in the market. So we're able to penetrate the market more on the TMT side.
- Ashish Kejriwal: Fair enough sir. And sir lastly about realization, because your half yearly contract for auto is going to come now as well as well as spot prices we have seen correction in the last three months which effectively means that at least first quarter blended realization could be as low as Rs.2000 per ton as compared to fourth quarter. So is my assessment right or because in one of the questions you answered that realization is marginally falling as compared to the fourth quarter but when I am looking at all the things it seems to be Rs.1500 to Rs.2000 per ton lower than fourth quarter. So please correct me if I am wrong?
- Jayant Acharya: The quarterly and half yearly numbers which would come in for negotiation would be limited to automaker which in terms of percentage of our overall volumes maybe let's say 10% or 12% of the auto, auto volumes is roughly around that range, so the impact would be limited to that. In addition to that as I said the for importers where we had to realign some prices in the month of April in the direction of the imported prices that would have an impact. But I may not be able to quantify it for you right now but the margins I think to some extent would be cushioned by as we discussed the fall in iron ore prices which has been affected by NMDC. Also, the restarting of mines which was started in Orissa and the coking coal blend as we said which is going to go down by let's say \$5- \$6/t at least. So there would be a cost advantage which would cushion the falling prices.
- Moderator: Thank you. Our next question is from the line of Abhijeet Mitra from ICICI Securities. Please go ahead.

- Abhijeet Mitra: I have two clarifications, first of all in Vijayanagar is there the environment clearance which was waited has that been obtained? That's point number one. Point number two is that on the downstream side are we maintaining the earlier profile that is 1.5 MTPA of billet caster and 1.2 MTPA of bar mill and does this new Capex of 162 million includes entire downstream investment to this tune? So this is all from my side, if I get a chance I'll come back later. Thanks.
- Seshagiri Rao MVS: Environment clearance has not been received, though we are expecting that can come soon. The second is, this expenditure guidance, which we have given includes everything 1.2 million ton bar mill and billet caster cost, it includes everything, it includes downstream.
- Abhijeet Mitra: And at the beginning of the call there was a comment by Mr. Acharya where he said that out of 0.9 billion in incremental sales in FY16 50% would be flats and 50% would be longs, so just trying to understand, the entire incremental production would be in longs right, so are we building in an increase in utilization base, Vijayanagar business as well while building in this guidance?
- Jayant Acharya: Yes, its a combination of both, the Vijayanagar unit is going to produce about 1 million ton more vis-à-vis last year, slightly below 1 million tons more.
- Seshagiri Rao MVS: No, here I think I want to give a clarification, for instance Dolvi unit, we are taking shut down of the blast furnace that will happen in this year, we have taken this into account while giving the guidance. At Vijayanagar we will be taking shut down of our blast furnace again for revamping to increase the capacity, of course subject to environment clearance. So for this guidance, which we are giving, we are taking into account the shutdowns for almost 70 days to 90 days in each of these places. We are taking Incremental production majorly from Vijayanagar, not from Dolvi, not from Salem.
- Moderator: Thank you. Our next question is from the line of Vinay Shah from Reliance Mutual Fund. Please go ahead.
- Vinay Shah: I have one clarification question on the net debt movement, so if I see December '14 quarter end cash and cash equivalent was 620 crores and you also have movement of FD and MF of (+1500) crores in this quarter, so our cash and cash equivalent would have included this FDs. So just want to understand how we have reduced the FD balances?
- Seshagiri Rao MVS: No, these balances will include FD also, when we say we have Rs.2,100 crores of cash balance.
- Vinay Shah: No, I am asking as on December 2014, 620 crores was cash and cash equivalent so which would have included the liquid investments like FD and liquid units of mutual fund and the above graph indicates that we have reduced our investment in FD and MF by 1500 crores. So just want clarity there.
- Seshagiri Rao MVS: This is an increase, it is not a decrease. It is a green line.

- Vinay Shah: Yes sir. So if my balance was 620 crores including all these assets, how my FD balance would have reduced by 1500 crores?
- Seshagiri Rao MVS: No, the FD balance has increased by Rs.1500 crores, not reduced. It is a green line.
- Moderator: Thank you. Our next question is from the line of Calvin Fernandes from Deutsche Bank. Please go ahead.
- Calvin Fernandes: I just wanted to get some of a cash flow numbers for the fourth quarter. What were your cash flow from operations?
- Jayan Acharya: That I think you have to get it from the balance sheet; we are not working out those numbers. We will be releasing Balance sheet and from there you can get all the data.
- Calvin Fernandes: Okay. Can you tell me what your Capex is for the fourth quarter?
- Pritesh Vinay: Calvin, we had done a Rs.4,100 crores Capex in nine months and full year is Rs.5,600, so the delta would be around Rs.1,100 crores. I am sorry, Rs.4,500 in the nine months, so about Rs.1,100 crores during the quarter.
- Calvin Fernandes: 1100?
- Seshagiri Rao MVS: Yes.
- Moderator: Thank you. Our next question is from the line of Ravi Shankar from Credit Suisse. Please go ahead.
- Ravi Shankar: Wanted to know the acceptance levels, which is \$1427 million on a standalone basis this quarter, what was it last quarter and last year?
- Seshagiri Rao MVS: Last quarter was \$1,006mn.
- Ravi Shankar: And of which how much was capital acceptances?
- Seshagiri Rao MVS: Capital acceptance is over and above that, that is \$334mn in the last quarter, that is 31st December, 2014, the standalone.
- Ravi Shankar: Yes, right. And what were the corresponding numbers last year?
- Seshagiri Rao MVS: 31st March 2014 you want?
- Ravi Shankar: Yes.
- Seshagiri Rao MVS: 31st March 2014 acceptances were \$1,070mn and the capital is \$337mn.
- Ravi Shankar: Okay. Sir, the other question was on power cost, so at the standalone level the power costs have come down but at the consol level they have gone up, so which entity has contributed to that increase?
- Seshagiri Rao MVS: ARCL is buying the power, JSW Steel Coated is buying the power,.



- Moderator: Sir we have a question from the line of Raj Gandhi from Sundaram Mutual Fund. Please go ahead.
- Raj Gandhi: Sir what were the acceptances on the consol level?
- Seshagiri Rao MVS: Consolidated level acceptance is \$1670mn.
- Raj Gandhi: 1670 on account of revenue.
- Seshagiri Rao MVS: Sorry, it is \$1,578mn.
- Raj Gandhi: 1578, this is on account of revenue acceptances right?
- Seshagiri Rao MVS: Yes, revenue acceptance.
- Raj Gandhi: And capital?
- Seshagiri Rao MVS: \$445mn for Capex on consolidated basis.
- Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the floor back to Mr. Kawaljeet Saluja for closing comments. Over to you sir.
- Kawaljeet Saluja: Pritesh, would the management team like to make any closing comments?
- Pritesh Vinay: Thank you very much for participating in the call. In case there are any follow-ups, please feel free to get in touch with us here and we will be happy to follow-up on that. Thank you.
- Moderator: Thank you very much. Ladies and Gentlemen, on behalf of Kotak Institutional Equities that concludes this conference. Thank you for joining us and you may now disconnect your lines.