

“JSW Steel Limited – Q1FY17 Earnings Conference Call”

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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. Dhawal Doshi – Phillip Capital (India) Private Limited

Moderator: Ladies and gentlemen, good day and welcome to the Q1FY17 Earnings Call of JSW Steel Limited hosted by Philip Capital. 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. Dhawal Doshi from Phillip Capital. Thank you and over to you.

Dhawal Doshi: Thanks, Zaid. On behalf of Phillip Capital I would like to welcome you all on the Q1FY17 Earnings Call of JSW Steel. I would also like to thank the management to give us an opportunity to host the call. I will now hand over the proceedings to Pritesh, who will take it forward. Over to you Pritesh.

Pritesh Vinay: Thank you, Dhawal. A very Good Evening to all the participants who have dialed-in to the Q1FY17 Earnings Conference Call. We hope that you have had some time to go through the numbers.

We have with us today the senior management team of JSW Steel represented by Mr. Seshagiri Rao - Joint Managing Director and Group CFO; Dr. Vinod Nowal - the Deputy Managing Director; and Mr. Jayant Acharya - Director, Commercial & Marketing. We will keep the format simple, we will start with a few minutes of opening remarks by Mr. Rao and then we will open the floor for Q&A and make it efficient for everyone. We hope you have already got a link of the results, the Press Release and the Presentation which is already uploaded on the website. So, I hand the floor over to Mr. Rao.

Seshagiri Rao: Good evening, I am Seshagiri Rao here. I welcome you all for the first quarter financial performance briefing of JSW Steel. As you all are aware that the World Steel Association, in its short range outlook for the year 2016 has projected that the world steel demand will be down by 0.8% – majorly led by a 4% demand drop in China due to insufficient investments activities.

If you watch the capacity utilization of the global steel industry, it came down below 65% in December and it was working at 66% in January and February. Suddenly, the prices started picking up in February in the international market

which again resulted in big over supply in the market place, and the capacity utilization picked up from 66% (majorly led by China again) to 71% in the month of June. So, with more production and deceleration in demand, the structural oversupply situation further intensified in the first half of the calendar year 2016.

Outcome of this over supply and higher capacity utilization is that we have seen a lot of pressure in the international steel prices. But at the same time, there is a regionalization of the entire pricing scenario in the international markets. Every country, to stop the surplus steel which is coming in at dumping price levels, has taken steps to introduce trade remedial measures. That is why, we have seen pricing differences across the continents. In the USA price of benchmark HRC is at \$700/t, in the Europe it is \$500/t, in Japan it is \$550/t, in Korea it is around \$500/t, and in China it is at \$350/t. So, we are seeing regionalization of the prices as a lot of trade remedial measures are being taken by various countries.

As far as India is concerned, in the last quarter the production of steel went up by 4.8%. We all were expecting that the demand would pick-up but the actual demand growth as per JPC was only 0.4% in the quarter. We were expecting imports to moderate much faster due to introduction of MIP but imports came down by around 27% only. Even in this scenario, on the domestic side the prices went up in the month of March to May but later started correcting with a fall in international markets. So, this was the business environment in which JSW Steel has operated in the last quarter.

If we look at the results, JSW has reported highest ever production, highest ever sales volume, highest ever EBITDA, and highest ever net profit; both on standalone and consolidated basis. On the production side we have achieved a growth of 14%YoY. In the case of sales volume, we achieved a growth of 8%YoY. It is important to point out that exports volume went up to 19% of the overall sales, registering a 39%YoY growth in this quarter. So, all this led to an operating EBITDA of Rs.3,098 crores which is a growth of 85%YoY and the profit after tax for the standalone company was Rs.1,082 crores.

As regards to subsidiaries, JSW Steel Coated Products has done extremely well. It reported EBITDA of Rs.157 crores and PAT of Rs. 74 crores. But US Plate and Pipe Mill remained at very low capacity utilization. It reported a negative EBITDA of \$5.45 million.

The consolidated results were: the operating EBITDA stood at Rs. 3,269 crores, again an increase of 92% and the profit after-tax was Rs. 1,109 crores.

I would like to highlight that IndAS accounting has become mandatory, accordingly we have recast our accounts starting from the previous year (from 1st April 2015).

We have prepared an opening balance sheet and we recast all the three quarterly results and also year-end results as per the IndAS accounting.

I will spend a few minutes just to tell you the impact of IndAS. If I go by the accounting standard wise, and if I look at IndAS-10, according to it, any event happening after a reporting period like dividend declared after the reporting period but not approved by then, that amount has to be accounted only when it is approved. So, this required recasting of net profit for the year ended 31st March, 2016 and the balance sheet as at 31st March 2016.

Next is IndAS-12, this is on income tax. As per IndAS, Income tax has been changed to balance sheet approach. So therefore in case of any fair value accounting on acquisitions, which have been done by JSW Steel in the past, like the U.S. acquisition and also the Ispat acquisition - whereas IndAS is looking for balance sheet approach, we have to create a deferred tax liability on the fair value and the tax base difference. The deferred tax liability accounting has been done as per the IndAS-12 that will have an impact on the net worth in the opening balance sheet and the reversal in the P&L account at subsequent periods.

As per IndAS-17 related to leases, any procurement of services or goods which is in the form of a lease arrangement (not necessarily in the legal form) has to be accounted as lease. So, there are four companies which are coming under this accounting standard, that is, JSW Projects, Amba River Coke (ARCL), JSW Salav, and HARSCO. Accordingly, the arrangements with them have been accounted as the financial leases in the standalone company. But in the consolidated accounts, anyhow, ARCL and JSW Salav were getting consolidated in a normal way. So, in the consolidated accounts, this incremental impact due to accounting of these arrangements as the financial leases will come only from JSW Projects and HARSCO.

IndAS-27 is on look through approach. As per this, if a company has bought its shares under any ESOP trust and the company has given a loan to the ESOP trust to buy the shares, then that has to be accounted as per look through approach. So, the impact of this is that the capital gets adjusted to the extent of outstanding ESOP shares. And on the liability side, the loan given will also get adjusted.

As per the IndAS-108 on operating segment, we are now showing that JSW Steel has only one operating segment.

IndAS-109 is on financial instruments. There are four items for JSW Steel which are getting covered under the IndAS-109:

- 1) Preference shares - preference shares are to be treated as a debt and similarly the coupon rate will be accounted as interest. So, now the

total debt of the company will go up with regard to the outstanding preference shares. Now, they are also to be accounted on NPV basis.

- 2) Any upfront fee paid on the loans has to be adjusted in the loan and effective interest cost has to increase. So, that accounting has been done.
- 3) Any long-term deposits given or long-term deposits received have to be accounted at fair values. So that accounting has been done.
- 4) The last item is equity investment in JSW Energy. Whatever shareholding the company has in JSW Energy, has been treated at fair value and the difference has been adjusted in the net worth and if there will be any fair value differences that will go through other comprehensive income.

The next Accounting Standard is IndAS-110 which is related to consolidation of entities. Even though shareholding is not the criteria as per IndAS, if we look at the control point of view as defined under this Accounting Standard there are three entities which will get consolidated as a part of JSW Steel consolidation. They are: JSW Realty & Infrastructure Private Limited, Dolvi Minerals and Metals Private Limited, and Dolvi Coke Projects Limited. These are the three companies which get consolidated as per IndAS-110.

IndAS-111 is on JV accounting. Earlier we used to do the JV accounting under proportionate consolidation method whereas now as per IndAS it has to be done by the equity accounting method. Accordingly we changed the accounting.

So these are the major changes which we have covered in our Presentation. If you have any specific clarifications, we will be able to share with you.

The impact of IndAS, particularly on the debt side, is that the debt at the end of 30th June, 2016 has gone up by Rs.2,673 crores mainly due to the embedded leases (which is, as I explained earlier, as per IndAS-17). So, the net debt of the company, as on 30th June, 2016, is Rs.45,355 crores including Rs.2,673 crores getting added due to IndAS.

Going forward, we have given the guidance of 15.75 million tonnes of crude steel production and 15 million tonnes of sales (which is 25% and 24% growth, respectively) for the year and we will achieve it. In this quarter we have recorded a growth of 14% in terms of production and 8% in terms of sales. We are seeing ramp-up in our capacity utilization which is happening at Dolvi. So going forward, you will find more volume growth in JSW Steel in the following quarters.

We had expected that the demand growth in India this year will be around 6%, however, we saw that it was just 0.4%YoY in Q1 and Q2 is generally a sluggish quarter. So, we do not expect a big ramp up in Q2 on the demand side. So, this

quarter appears to be a sluggish quarter. So, the prices could be under pressure with more production. I mean that the market demand will remain more or less at the same level as it was in Q1. But we expect demand to pick-up from H2 as we are seeing a lot of green shoots in terms of solar industry or auto industry or mining industry or commercial vehicle industry.

We have brought to the attention of the government also, the kind of imports which have happened into India after introduction of MIP in this sluggish demand environment and also the global situation. We have explained to the government that the imports went up by 60% in the month of March after introduction of MIP in February. Similarly, if I look at April to June quarter, the imports have come down only by 26% whereas we were expecting, when MIP was introduced, that the imports would come down at least by 50% as it covers almost 80% of imports in the relevant time. As imports came down by only 26%, the expectations of the relief which the government would like to give or the industry would like to avail is not materializing. Import are still at a level of 6,50,000 tonnes - 7,00,000 tonnes per month. So, 8-8.5 million tonnes of imports (annualized) are still actually happening into the country. It is also very important to note that 50% of the imports, which have come in the last quarter, have come below the MIP price. When MIP is at \$445/t for HR coil, we have seen some imports coming in to the market, particularly from Korea, at just \$266/t. So, this is a matter of concern. That is why the steel industry has represented to the government that not only MIP needs to be extended, it has to be expanded, and it has to be monitored properly. If any circumvention happens in terms of imports that has to be curtailed. So this is what we represented. We expect that MIP will be further extended in the month of August.

The last point I would like to touch upon is on category C mines. So, we are expecting the category C mines will be auctioned. That is what we guided at the beginning of the fiscal year. But this was delayed because of some uncertainty as regards to applicability of the stamp duty in case where the lease period is beyond 30 years. Now, the Government of Karnataka has made an amendment and clarified on the stamp duty payable by a lessee. Now we are expecting that the Karnataka government, as per the revised schedule which they have given, will be able to complete the auction of category C mines. We will be participating in this auction. As per the schedule given by the Karnataka government, it will get completed by 30th September.

With this, I conclude my opening remarks and open the floor for Q&A session.

Moderator:

Thank you very much, Sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Justin Ong from Barclays Capital. Please proceed.

Justin Ong: Two questions from my side - the company mentioned about approval to raise up to US \$2 billion in foreign currency bond that is basically just to have the approval in place. But can you perhaps elaborate more about timeline of any such issuance, use of proceeds; would it be for foreign investments or potentially some liability management exercise with regards to your existing US dollar bonds? And just second question is any updates about the status of this MIP, the minimum import price for example, the scope for continuation and those are the questions from me.

Seshagiri Rao: Yes, as regards to question related to the \$750 million bond raising, it is only an enabling resolution. If any opportunity arises that will reduce our cost of borrowing, we would like to replace some of the existing expensive loans with that. This is the purpose for which we sought this resolution or approval from the board. Otherwise, we are not looking at any incremental borrowing. On your second question related to MIP, as I mentioned earlier, we find a very strong case and justification from the industry for extension and expansion of MIP scope and we are reasonably confident that it would be done.

Moderator: Thank you. The next question is from the line of Jigar Mistry from HSBC. Please proceed.

Jigar Mistry: Two questions from my end. First, sir, you mentioned that imports into India have not come down along the lines expected at the time of introduction of MIP and also that the imports are actually coming in below MIP levels. If that is the case, do you think that extension of MIP will really solve the problem at hand?

Seshagiri Rao: Yes, the point which we have to note is that imports have come down by 26.7% in the quarter, though our expectation is of 50%. However, had the MIP not been there imports would have gone up. Therefore, MIP continuation is very important. The second point is that when 50% of the imports have come below the MIP price, there could be several reasons why it is happening. It could be an LC opened prior to introduction of MIP, so, therefore, it is coming at other than MIP price, or it could be under advance licenses. Therefore, we are requesting the government to monitor strictly and see whether it is coming in a legal way or there is any circumvention of MIP. The third point which we are highlighting is that there are certain imports which came to our notice that they are coming in a form of classification not covered under MIP but are being diverted to the end use for which they should have come under MIP. For instance, the bars generally used in construction, they are coming under the classification of 7228 which is an alloy bar which cannot be used in construction; but they are importing under that alloy bar category and using it for construction. Like that, there are various areas where we noticed that the monitoring of MIP needs to be strengthened for its effective implementation based on the end use. So, that is why we are seeing imports are still at an elevated level then what was anticipated earlier. We have brought these

points into the notice of the government. So, MIP has to be definitely extended. It is providing the relief but not to the extent which we expected. Once monitoring is strengthened we expect that the situation would correct.

Jigar Mistry: And in your opinion sir, say a blanket Anti-Dumping Duty at an elevated rate will not be as effective as an MIP?

Jayant Acharya: So, Anti-Dumping is basically product as well as country specific and again exporter specific. So, that will again depend on country to country, exporter to exporter. While it is more long-term (a five year kind of) measure but it is specific to a country. So MIP is broad-based and therefore, in the current environment where every country is putting some trade measures, MIP will essentially ensure that cheap steel does not come into India,.

Jigar Mistry: Thanks. And lastly sir, on Page #20 of the Presentation, you said that EBITDA on a like-to-like basis is Rs.220 crores higher on account of IndAS. So that is not relevant or not as compared to any previous quarter, it is just because of the implementation of IndAS. The reporting has gone up by Rs. 220 crores.

Seshagiri Rao: It is correct.

Moderator: Thank you. The next question is from the line of Ravi Shankar from Credit Suisse. Please proceed.

Ravi Shankar: Firstly, my usual question on acceptances where they are? And secondly, on the exports front see last quarter there was a period when Chinese prices were higher than the domestic prices and we were competitive in the sea-borne trade. Now that the Chinese prices are again at sub \$400 per tonne, do you think that the kind of tactical opportunity we capitalized on in the last quarter would still be there?

Seshagiri Rao: Acceptances on revenue side have come down significantly in the last quarter, it was \$802 million. CAPEX acceptances were at \$429 million. So, both of them have come down compare to 31st March 2016. As regards to prices, I will ask Jayant to answer.

Jayant Acharya: So last quarter gave us a practical opportunity with respect to the international market. While the Chinese prices have corrected from the peaks in May 2016 but I think there are certain markets which are still giving us value. So if you look at certain geographies, the prices are better than what is prevalent in the Chinese or the Southeast Asian side. So, there is still opportunity in the international market vis-à-vis let us say few months back or two quarters back.

Ravi Shankar: So this is outside of Asia?

Jayant Acharya: Yes.

Moderator: Thank you. The next question is from the line of Anuj Singla from Deutsche Bank. Please proceed.

Anuj Singla: Just two questions from my end, one, during this quarter we have seen a significant increase in debt - around Rs.4,560 crores like you mentioned. So I think a portion of this is because of the lower acceptances and probably for the repayments as well. But as per our earlier guidance, we were expecting the (incremental) debt towards our CAPEX of only Rs. 1,500 crores for this year. So, is there a change in that guidance or should we be expecting the debt levels to taper off during the course of the year?

Seshagiri Rao: No, the impact of IndAS was not factored when we guided last time. So the net debt number of Rs.45,355 crores as on 30th June includes Rs.2,673 crores as an impact of IndAS. If I take out this Rs.2673 crores then what is left out is Rs.42,948 crores. That is net debt without IndAS impact. The debt, as on 30th June, has gone up compared to the 31st March 2016. The reason behind this are:

- 1) Acceptances reduction – we have up-fronted the entire repayment to bring down acceptances at the end of Q1.
- 2) We have drawn down a lot of inventory in Q4FY16. We have built some inventory in this quarter and for that we have put additional working capital into the system.

But as far as overall debt (excluding the IndAS impact) is concerned, we can bring down the debt going forward. So, our guidance is that the overall debt will be of Rs.40,000 crores plus this Rs. Rs.2,673 crores (IndAS impact) by the end of the current year.

Anuj Singla: Okay, wonderful, sir. And sir, second question is with regards to the impact on the consolidated EBITDA. You said as per IndAS 110 three entities were consolidated in this quarter. So, would you be able to guide how much of EBITDA did they contribute?

Seshagiri Rao: The impact on EBITDA is not there because they are not really big operating companies. Dolvi Coke project is under implementation so they have a debt of approximately Rs.700 crores. They have taken up the implementation of 1.5 million tonne coke oven project which is required for meeting the additional requirement on expanded capacity at Dolvi and Vijayanagar. Dolvi Minerals and Metals is a holding company of Dolvi Coke. These two entities together have debt of Rs.700 crores. JSW Realty & Infrastructure has a debt of Rs.100 crores. So, there is not a big impact as far as EBITDA is concerned.

Moderator: Thank you. The next question is from the line of Amit Dixit from Edelweiss. Please proceed.

Amit Dixit: I have just few questions, first one is what was the cash flow from operations in Q1 FY17 and the amount of CAPEX incurred? The second question is what were the primary drivers of reduction in raw material cost as we saw the raw material cost declined significantly Y-o-Y to roughly Rs 14,600 per tonne?

Seshagiri Rao: As far as the CAPEX expenditure in Q1FY17 is concerned, it was Rs.827 crores on a cash flow basis and CAPEX incurred was about Rs.950 crores. As regards to total cash flows, we have met the interest outflow, the loan repayments, the capital expenditure as well as the working capital requirement. We can give you the details later as regards to overall cash flow is concerned.

As regards to raw material cost drop on YoY basis, you are right that there is a reduction of 12% in the cost. This is majorly due to raw material prices - iron ore and coal prices being higher in the corresponding quarter of the last year. In this year we have got the benefit of lower raw material prices. What is again important to note is that the cost has gone up by 1%QoQ. So, the raw material cost is going up. One main reason behind this is the differential pricing being followed by NMDC and other mining companies in the state of Karnataka. Earlier there used to be one price across India by NMDC but they have increased the base price in this quarter, taking advantage of the situation of scarcity in Karnataka and also auctions, by way of differential pricing between Chhattisgarh and the Karnataka. That is why, if I compare the prices of Chhattisgarh and the Karnataka state, Rs.590 per ton of iron ore is extra cost being paid in Karnataka over Chhattisgarh. Therefore, there is an increase in cost in the Q1 on QoQ basis. The 12%YoY drop is not that much relevant.

Amit Dixit: Sure, sir. Just one question, what is the approximate sourcing from NMDC in percentage terms?

Seshagiri Rao: We get around 6 lakh tonnes per month from NMDC out of our total requirement of 1.8 million tonnes at Vijayanagar.

Moderator: Thank you. The next question is from the line of Goutam Chakraborty from Emkay Global. Please proceed.

Goutam Chakraborty: Sir, my question is on the pricing outlook as per some news reports and certain guidance that we understand that in the month of June there has been some kind of price cuts so, can you throw some light on it how much it would be compared to the last quarter?

Jayant Acharya: As we discussed the international prices peaked out in the month of May 2016 and after that the prices have corrected downwards except for certain markets like U.S. where because of the trade measures it remains at an elevated level and has actually gone up. So as far as the pricing in the domestic market is concerned, we

have seen a rise in line with the international prices from February to May 2016. And after that we have seen some corrections in the spot and monthly prices. The correction is slightly different depending on product to product, flat and longs. But yes, we have seen some corrections in the market.

Goutam Chakraborty: Sir basically just wanted to get a sense of now, MIP is definitely little uncertain whether what would be the decision. But do you see the prices remaining at this level or will be a little weaker probably in Q2 or in Q3 also?

Jayant Acharya: If you were to divide this into buckets and you see flat and longs differently, I would say in the Q2 which is seasonally weak quarter, you will see long products being little bit more subdued than flats. So long products like TMT which is in construction will be a little under pressure in Q2. In flat products, some corrections, as we discussed just now, has taken place let us say since June. And hereon I don't think much may happen in the flat side but longs is a little subdued because of seasonal factors and it is again likely to stabilize upwards going into H2.

Goutam Chakraborty: Sir, if you would quantify it may be around Rs. 500 to Rs. 1,000 per ton or would be higher on an average basis?

Jayant Acharya: It is difficult to quantify because the point is that I would be giving you misleading numbers if I do so. That is because of regional price differences as well as product price differences. Then you have spot price, monthly price, quarterly price, half year prices. So it would basically be more confusing if I try to give you numbers. So I would say directionally if you look at it, international prices have moved up and corrected thereafter, domestic prices have followed a similar pattern, seasonal weakness in July September will be reflected more in longs than in flats.

Goutam Chakraborty: Okay, got it. Just one related thing as Mr. Rao mentioned that, last quarter, there were substantial exports; we did about 19 odd percentage of volume. So, what kinds of differences are there in the prices that you have achieved in the domestic market and if we look at the export market?

Jayant Acharya: So if you were to take let us say various products various differences. But if you were to take HR as a product, the last quarter gap probably was of about \$30/t-odd something which you would have seen as an arbitrage in the international market.

Goutam Chakraborty: So international prices were up by about \$30?

Jayant Acharya: Yes, so our exports, the question which you asked, the exports have been higher as there was an arbitrage to that extent.

Moderator: Thank you. The next question is from the line of Bhavin Chhedda from Enam Holdings. Please proceed.

- Bhavin Chhedda:** Sir, on the iron ore side, did you mention the cost difference of Rs.590 a tonne; that is Rs. 590 per tonne of iron ore or per tonne of crude steel between Karnataka and Chhattisgarh?
- Seshagiri Rao:** No, it was per tonne of iron ore.
- Bhavin Chhedda:** And just additional update, is the FDT now accounted or it is not accounted in the iron ore cost?
- Seshagiri Rao:** FDT that is paid or payable as per the order of the Hon'ble High Court on the iron ore procured from MML is accounted. In case of others, it is not applicable therefore it is not accounted.
- Bhavin Chhedda:** So, MML is any way a very minimal quantity. So, on the majority of the iron ore, the FDT is not there now?
- Seshagiri Rao:** Yes.
- Bhavin Chhedda:** Okay. And sir, the revenue acceptance number you mentioned was Rs. 802 crores and capital at Rs. 402 crores, right?
- Seshagiri Rao:** No, Capital acceptances were at \$429 million.
- Bhavin Chhedda:** \$429 million. So if I add this both up, this was roughly say Rs. 8,200 odd crores, whereas this figure was roughly Rs.12,000 odd crores at the end of Mar 2016. So, the Rs. 4,000 crores net debt going higher is purely because of the acceptance is coming down?
- Seshagiri Rao:** No, I also clarified this point that inventories were up.
- Bhavin Chhedda:** Yes, that is one figure, but is this revenue plus capital acceptances are down by Rs. 4,000 crores on quarter-on-quarter basis?
- Seshagiri Rao:** No, the number given is correct and it has reduced compared to 31st March 2016 but it is not correct to say that debt has gone up only due to reduction in acceptances. Debt has not gone up just because of this. There are various other factors. We have put more money in the working capital as a whole. If I look at the inventories were up, debtors cycle was up in the last quarter, the money has gone into the working capital which will get corrected in the next nine months time. Our guidance is of debt of Rs.40,000 crores plus Rs.2,673 crores on account of IndAS debt by the end of the year.
- Bhavin Chhedda:** Rs.42,000 crores will be the debt by the end of the year.
- Seshagiri Rao:** Rs.42,673 crores.

- Moderator:** Thank you. The next question is from the line of Raashi Chopra from Citigroup. Please proceed.
- Raashi Chopra:** First question on prices, I just want to get a sense in this quarter we do not really have the split now, how much on an average our prices moved up on a quarter-on-quarter basis in India? And how much benefit have you got from an improvement in the product mix and internationally you already mentioned was \$30, that is one. Second is from the next quarter onwards do we see cost going up on the raw material front, but then I think you had also mentioned in the press meet that you were expecting some other cost savings, so if you could just detail that a little bit please? Thank you.
- Seshagiri Rao:** if I look at the NSR, it has gone up 12%QoQ on a weighted average basis and a blended basis. As far as the raw material cost pressures is concerned, as I clarified, coal prices are going up internationally. So the coal cost will be higher in Q2FY17. Similarly on iron ore side, we are not seeing any major reduction in the iron ore prices because of the shortage of iron ore in Karnataka. So these are the two cost elements which, we expect, may be higher in this quarter. However, we are working on logistics to neutralize the impact of higher raw material costs and to improve our overall cost. Railways have taken out busy season additional levy, so that will give us benefit. Similarly, we will get some benefit in movement of iron ore within Karnataka with the short distances freight rationalization. So, these are the two advantages on account of logistics which will come in. Similarly, we will benefit with ramp-up of production in Dolvi. Our average blast furnace production run rate per day was 7,000 tonnes, now we are working at ~9,000 plus tonnes per day. As we are ramping up capacities, we will have additional cost reduction over fixed cost per tonne and fuel efficiency/cost per tonne. . The cost reduction would happen in these areas. So, we are trying to neutralize the impact of additional cost if not save more.
- Raashi Chopra:** Just one more follow-up, the IndAS difference in the EBITDA for this quarter for the standalone entity you have shown us Rs.220 crores so where does this maximum delta coming from?
- Seshagiri Rao:** This Rs.220 crores is majorly due to the impact IndAS-17 on account of embedded leases.
- Moderator:** Thank you. The next question is from the line of Abhisar Jain from Centrum Broking. Please proceed.
- Abhisar Jain:** Sir, my question is related to the volume guidance that we have of around 15 million tonnes. So, two parts to the question sir, first on the export side, with the current pricing scenario, do you feel confident of maintaining the run rate that we could achieve in Q1? And if so, sir, in terms of the domestic market we would need

to sell substantially higher volumes in H2 and already the demand scenario is not panning out that well, so are we still very confident of being close to our guidance, sir? Just a little bit clarity on this will help.

Jayant Acharya: Yes, so our guidance for the year is 15 million tonnes of sales and we have delivered around 23% of that in Q1. We have built up some inventory on account of de-stocking which took place in Q4. We had drawn down on inventory, so, we have replenished some of that. Going forward, we maintain our guidance. I believe, we will be able to reach to the 15 million tonnes number. As far as export is concerned, we were at about 12% in the last quarter as well as last year. If you recall prior to that we have been in the vicinity of 25%-26% of exports. The opportunity available in Q1 with respect to prices, took exports up to 19%. We still see opportunities in various parts of the world across the various products and therefore, I think the export as a percentage this year may be in the range of 15% to 20%.

Abhisar Jain: Okay. And sir, the remaining 80% quantity (of around 12 odd million tonnes) is to be sold in the domestic market which will require a substantially higher run rate in H2. Do we remain confident because of the various specific markets that we are targeting particularly from the production coming out of Dolvi and all?

Jayant Acharya: Yes, so, it is about 1.25 million tonnes in terms of the actual number if you look at this number of 12 million tonnes vis-à-vis last year's domestic sales. And we have got multiple products. As we said, there are certain initiatives which are driving the growth in the domestic market; automotive is one of them where continuous product approvals and increase in volume across various auto companies is increasing our volumes. We are also seeing that appliances and consumer durables demand will go up on the back of likely improvement in consumer expenditure with the good monsoon and 7th Pay Commission payouts. We are also seeing activities around the solar which is picking up. And I think after monsoons, construction is also likely to pick up which has not played out in H1 and there we would see some TMT moving in as well. So, the delta of 1.25 million tonnes - 1.30 million tonnes in the domestic market for the full year is not a problem.

Abhisar Jain: Okay. And sir lastly, what could be the approximate mix between flats and longs for this year, in terms of the sales volume?

Jayant Acharya: As of now flats is in the vicinity of 75%-76%.

Abhisar Jain: Right. But for the full year, we would be ending up with what mix, approximately based on your plans?

Jayant Acharya: We have the flexibility. So, I would say that we would keep our flexibilities open and we will respond as the market moves, as the product mix moves in the market.

Moderator: Thank you. The next question is from the line of Yong Kok Onn from Bank of America Merrill Lynch. Please proceed.

Yong Kok Onn: Very quick questions from me. Just can you elaborate a little bit in terms of the quarterly sales number where the retail sales actually comes down from 38% to 32%, do you see that as happening for next quarter as well?

Jayant Acharya: So as we discussed that this time we took a conscious move to increase the exports with the better realizations in the international market. Moreover, we had to build-up some inventories in retail side in the last quarter to sustain increased activity levels, and retail sales has also been slightly softer in on the back of sluggish domestic demand. As we go forward into the balance part of the year, I think sales of various product lines in retail will improve, we saw our branded sales in the last quarter grown by 15%YoY; branded sales as a percentage of the total retail sales has now climbed to 52%. We are increasing our penetration in TMT, we are increasing our penetration in color coated and Galvalume. So, we are still seeing potential in these specific product segments. And I think post monsoons, retail would pick-up.

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

Ashish Jain: Sir, on Slide #20, you have mentioned the impact of borrowings on standalone basis at Rs.4,348 crores. Just wanted to understand that?

Seshagiri Rao: Yes, borrowings has been impacted by Rs.4,348 crores at the standalone company mainly due to accounting of embedded leases and consolidation of some other entities . As I mentioned to you, there are four companies which are getting accounted as embedded leases in the standalone company. Those four companies are: JSW Salav (a 100% subsidiary), Amba River Coke (a 100% subsidiary), JSW Projects and HARSCO. The other entities which were not getting consolidated earlier are: JSW Realty & Infrastructure Private Limited, Dolvi Minerals and Metals Private Limited, and Dolvi Coke Projects Limited. But this Rs.4,348 crores number, at consolidated level, comes down to Rs.2,741 crores (pls refer slide #21). At consolidated level, ARCL and Salav were already getting consolidated so there is no impact on account of these two. So, whatever impact is there, as on 31st March at the consolidated level, is due to JSW Projects, HARSCO, JSW Realty & Infrastructure Private Limited, Dolvi Minerals and Metals Private Limited, and Dolvi Coke Projects Limited.

Ashish Jain: Okay, Got it. And sir, the EBITDA impact also, so this Rs.220 crores is a recurring number from here on given the nature of the items you explained?

Seshagiri Rao: Yes, it will be in that range.

- Moderator:** Thank you. The next question is from the line of Ritesh Shah from Investec Capital. Please proceed.
- Ritesh Shah:** Sir first, if you could please reiterate our CAPEX guidance and specifically on the covenants, has it been reset or how do we look at it?
- Seshagiri Rao:** As far as covenants are concerned, we have already got a relaxation for 31st March, 2016 and have also reset those covenants. We will be able to comply with those covenants going forward. I do not find any problem on the covenants side.
- Ritesh Shah:** Okay. And sir, on the CAPEX so far and how do we see it for the rest of the year and next year?
- Seshagiri Rao:** So, out of the guidance of Rs.7,000 crore CAPEX over two years - Rs.4,300 crores in this year and Rs.2700 crore next year, we have incurred CAPEX of Rs.947 crores in Q1. The cash outflow on account of CAPEX was Rs.827 crores in this quarter. So we are moving in the same direction as we have guided.
- Ritesh Shah:** Okay, perfect. Sir, secondly on the pricing and in one of the previous questions you did indicate that the prices increased by 12% on a sequential basis, it would come to around Rs.3,500. Sir, what I want to understand is how do you see the prices play out? How has it played out in the month of July? Are the exit rates higher than June, how should one look at it?
- Seshagiri Rao:** No, as far as pricing is concerned it depends upon several factors that is why it is difficult to talk on this. But if I look at the dynamics of supply and demand, demand is looking sluggish globally as well as in India – particularly in July-September. And the production is coming into the market. So, there will be pressure on prices. This much we are able to tell you. But it is very difficult to visualize that how much would it be or to what extent the prices will correct. But we will do the volumes, we will do the product mix changes, we will do the geographical changes and we will meet the volume guidance. And we will work on the cost side. Selling prices are not in our hand, we need to leave it to the market forces. But second half would be better than the first half.
- Ritesh Shah:** Sir, I will put it in another way. If one had to look at it on an import parity pricing on Chinese export HRC prices, do we have currently room to increase prices if it was not for increased domestic supplies?
- Seshagiri Rao:** No, when the MIP was introduced and the same question was asked to us the difference between MIP price and then prevailing domestic price was Rs.7,000 - Rs.8,000 but we never said we will be able to capture entire Rs.7,000 - Rs.8,000 gap. We have been guiding every time that it may be possible to capture 50% of the differential. There is an increase in supply in the domestic market which also

got reflected in Q1. The productions went up by 4.8% whereas demand grew by only 0.4%. So therefore, there will be a correction in the prices but it is difficult to say that to what extent it will be. Chinese imports cannot come below \$445/t, as you know, unless MIP is circumvented or it is against advance license. There is no other way imports can come into India today. Our expectation is MIP will be extended. Therefore, Chinese prices at which they are dumping in various countries may not be benchmark to see how the prices in India will move. Rather we should look at supply and demand situation in the domestic market.

Ritesh Shah: Sir, just last question, you did indicate that the inventory levels have moved up, would it be possible for you to quantify the volumes for finished goods and raw materials?

Seshagiri Rao: The finished goods inventory approximately has gone up by 150,000 tonnes when compared to 31st March. Additionally we have built in WIP (work-in-progress) stock that is necessary for us to do it. So basically, the finished goods inventory has gone up by 150,000 tonnes and overall inventory has gone up by around 360,000 tonnes.

Moderator: Thank you. The next question is from the line of Meri Luiz from Blue Bay. Please proceed.

Meri Luiz: You touched upon it on the call but it is not quite clear to me, can you please explain again why the new loans increased by Rs.4,500 crores that is about \$670 million.

Seshagiri Rao: No, there is a standalone balance sheet and there is a consolidated balance sheet. So on consolidated balance sheet, debt went up by Rs.2,700-odd crores but if you look at the standalone balance sheet it went up by Rs.4,348 crores. So, the question was on the reason behind this difference. So, I explained that there are embedded leases (as per IndAS) both at Standalone Company as well as Consolidated Company, and we have to account for these embedded leases. When we account for these embedded leases in the standalone company, a 100% subsidiary (even though it already used to be consolidated at Consolidated Company level) also requires consolidation at Standalone Company level. So when we are consolidating, for embedded leases at the Standalone Company, four entities have to be consolidated for embedded lease transaction. Those four companies are Amba River Coke, JSW Projects, JSW Salav and the HARSCO. Out of these four, two are 100% subsidiaries and were already consolidated and their numbers also exist in the consolidated accounts. So the net difference is only because of the other two companies.

Meri Luiz: No, but I mean please correct me if I am wrong, but I am just looking at the Page #18 of the presentation, so there you specify what is the impact of the IndAS which is Rs.2,400 crores and then the other portion which is new loan taken it is Rs. 4,500

crores that is about 10% of the net debt as of June 2016. So, I was wondering is this new bank debt or other form of debt that you have taken throughout the quarter on a consolidated basis and if so why? I want the reasons for that.

Seshagiri Rao: This Rs.4,561 crores is debt not relating to IndAS at all, this is a new debt which has been taken in the company to put it into the working capital. I clarified that this increase is due to increase in working capital, increase in inventories and reduction in the acceptances. I have also clarified on the guidance of overall debt, it will remain at Rs.40,000 crores plus IndAS impact at the end of the year. This incremental debt, which we have raised to fund the working capital in the first quarter, will get paid out of the cash accruals in the following quarters.

Meri Luiz: And if I may follow-up with the second question, it is just on the news we have and I think this is part of your shareholder meeting the results of which were announced today but there is a mentioning of a new dollar debt issue potentially and the approvals for that. Can you please talk about whether this is a usual approval you renew every year or you are looking to firm up this working capital debt that you just raised which is potentially a long-term bond issue?

Seshagiri Rao: No, as these resolutions are generally valid only for one year, so we are getting it renewed every year. They are only enabling resolutions. So, all these are only for liability management to reduce cost if opportunity arises. Otherwise there is no plan to raise any incremental debt.

Moderator: Thank you. The next question is from the line of Gaurav Singhal from Nomura. Please proceed.

Gaurav Singhal: I have a couple of questions. The first is what is your ending balance of overall inventory in INR terms?

Seshagiri Rao: Yes, we do not have right now the number, we can't give it to you as Balance Sheet as of June end has not been published.

Gaurav Singhal: Okay. So maybe my second question is a bit related to this. If I am looking at Slide #18, which is the consolidated net debt moment, if I just consider the new loan taken minus repayments it is around INR 38 billion, and I am just trying to understand this because like you have EBITDA of around 33 billion, CAPEX of around 10 billion within the working capital, your acceptance has decreased by around 28 billion and the cash flow debt from new loans taken minus repayment is 38. So I am just not able to tally to the magnitude of around 20 billion - INR 25 billion, even if I assume Rs.10 billion – Rs.15 billion in interest and taxes. So I just wanted to understand whether your inventories really went up by INR 20 billion - INR 25 billion or is there some other major item to the tune of more than Rs. 10 billion that I am missing?

- Seshagiri Rao:** Balance sheet we will give half yearly but you have not taken interest outflow, interest is there to that extent.
- Gaurav Singhal:** I'm assuming interest plus taxes of around INR 15 billion
- Seshagiri Rao:** Yes, we will publish balance sheet as on 30th September but all are tallied numbers that way. There is increase in inventory, there is an increase in the debtors and second point is there is reduction in the acceptances so, all this together whatever net working capital that is required to be done that we have put in the working capital. So that way this is the incremental debt for all these purposes together including CAPEX.
- Gaurav Singhal:** Okay. So maybe if I put it another way. Would it be fair to say that your cash outflow from working capital would be over INR 50 billion in the quarter? Would that be the right ballpark?
- Seshagiri Rao:** It could be.
- Moderator:** Thank you. The next question is from the line of Abhishek Poddar from Kotak Securities. Please proceed.
- Abhishek Poddar:** Just a couple of questions. One is on the balance sheet, the fixed assets have gone up by some 43 billion. I am assuming that, that would be because of the revaluation, if you can clarify that? And second is, why the net worth has gone down after that?
- Seshagiri Rao:** The fixed assets have gone up because of capitalization. As regards to net worth impact, the net worth impact has come because of deferred tax liability created as per IndAS-12. As explained earlier, any acquisition made in the past and accounted at fair value, no deferred tax liability was required to be created as per IGAAP between tax base and the fair value at that relevant time. So, we did not create deferred tax liability. However, as per the IndAS any such acquisitions which have been made and accounted at fair value and if there is a difference based on balance sheet approach, we need to create deferred tax liability. This deferred tax liability that can be adjusted in existing opening net worth so that has been adjusted.
- Abhishek Poddar:** Sir, second question is on the capacity. I just wanted to get a sense that how management is thinking things from here on because you will be reaching the optimum utilization maybe by two years or so. So, would you expect the global markets to stabilize a bit more and then think about it or if you can give some sense on that?

- Seshagiri Rao:** No, generally we operate our capacities full whereas in this year we have guided 15.75 million tonnes production on 18 million tonnes capacity.
- Abhishek Poddar:** Sir, apologies. I just want to know, some sense on new project that you might start taking on or thinking about it.
- Seshagiri Rao:** There are no new projects excepting whatever we have communicated in the beginning of the year. So we are sticking to the total CAPEX guidance of Rs. 7,000 crores.
- Moderator:** Thank you. The next question is from the line of Nitesh Jain from Axis Capital. Please proceed.
- Nitesh Jain:** Hi, sir. Just one question. Can you tell us what is the status of the Anti-Dumping Duty investigation on various products? And when do you expect the final verdict to be out from the Director General of Anti-Dumping?
- Jayant Acharya:** So the Anti-Dumping Duty investigations are going on. I think responses have been received by the department from most of the exporters. I think the provisional or the preliminary duties will probably be coming in shortly. The investigations continue, outcome of which should be known in a few months' time.
- Nitesh Jain:** So, right now, if you can just clarify like which all products are there? I remember wire rod and of alloy and non-alloy is there, which other products are under Anti-Dumping investigation?
- Jayant Acharya:** The anti-dumping investigation is going on hot rolled, cold rolled, color coated, and wire rods.
- Moderator:** Thank you. The next question is from the line of ICICI Securities. Please proceed.
- Ansuman Deb:** I just wanted to ask the EBITDA impact of Rs.220 crores that is due to the conversion of embedded leases. Which line item particular would be pertaining to that other expenses or the raw materials?
- Seshagiri Rao:** These are two heads – one is job work charges and other miscellaneous expenditure under the head of Other Expenditure, and another is raw materials. These are the two items which get impacted because of embedded leases. These items get reduced and the EBITDA goes up to that extent. Depreciation and interest will also go up.
- Ansuman Deb:** And what is the proportionate distribution would you be having any idea?
- Seshagiri Rao:** No, I do not have the break-up how much is each item.

- Ansuman Deb:** Okay. And one more question regarding the probable extension of MIP as you said earlier how tenable is that considering that China has already been objecting to the WTO regarding these trade measures recently?
- Seshagiri Rao:** No, that way, as far the MIP extension is concerned; industry view is that it is in compliance with the WTO rules. So if somebody feels that it is not compliant, they can approach WTO and then we have every right to represent our case. Then WTO has to decide. So therefore, MIP extension from our point of view I do not think it is a deterrence.
- Moderator:** Thank you. The next question is from the line of Pallav Agarwal from Antique Stock Broking. Please proceed.
- Pallav Agarwal:** Sir, just want to check on the Uttam Galva assets being put up for sale. So, given our debt situation, would we be interested in any of these assets or even there were talks of the Tata Steel European operations. So right now, where do we stand on for the acquisitions, sir?
- Seshagiri Rao:** No, as far as JSW Steel is concerned, we have been mentioning that this year focus is on to ramp up our capacities, change of product mix in a better manner, acquire the category C mines, and reduce our cost. I think these are the focus areas as far as current financial year is concerned. At the same time, JSW Steel is a growth-oriented company. If any opportunity arises in the marketplace, we will evaluate but we are very conscious of our overall covenants and our overall debt ratios and we will comply with those regulations.
- Moderator:** Thank you. The next question is from the line of Kamlesh Bagmar from Prabhudas Lilladher. Please proceed.
- Kamlesh Bagmar:** Sir, just wanted to know that now this debt increase because of the IndAS impact, would that be covered in the debt covenant calculation by the banks as well or it is more of a non-cash or notional thing?
- Seshagiri Rao:** We have taken that into account when we approached for covenant relaxation. So, it is already taken into account
- Kamlesh Bagmar:** Okay. And sir lastly, I know that it has become a more of accounting tutorial pardon me for that. But on the depreciation side as well, actually we have seen an increase in the depreciation, all because of this lease only or there is another component to that because of the IndAS?
- Seshagiri Rao:** No, this increase in depreciation is on account of both IndAS impact as well as the incremental capitalization which has happened in May 2016 due to expansion at Vijayanagar and Dolvi.

- Kamlesh Bagmar:** And interest is because of the preference dividend and the lease?
- Seshagiri Rao:** Yes, it is also impacted by the capitalization.
- Moderator:** Thank you. Ladies and gentlemen, that was our last question. I now hand the conference over to the management of JSW Steel for closing comments. Over to you.
- Seshagiri Rao:** Thank you very much. As far as Q2 and going forward is concerned and the way we are seeing it, we believe that we will be able to show a better volume of production and sales in the following quarters and meet our guidance. And the other very important factor is the Category C mining auctions where JSW Steel will be aggressively participating in that. That is also another positive from JSW's point of view. We always closely watch what is happening in the international market and we continue to play with change in the export mix and the domestic mix. At the same time, we want to just bring to your attention that the pricing is under pressure in domestic market because of the sluggish demand in this quarter. We are factoring this pricing pressure in the current quarter. Similarly on the costing side, iron ore and coal prices is likely to have an upward pressure but we are trying to neutralize that through various cost reduction measures. So going forward, overall drivers for better performance from JSW Steel point of view are: better volumes, better product mix and auction of the Category C mines. These are the drivers which will drive better performance for JSW Steel going forward. Thank you.
- Moderator:** Thank you very much, members of the management. Ladies and gentlemen, on behalf of PhillipCapital, that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.