"JSW Steel Limited
Q4 FY2019 Earnings Conference Call"

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ANALYST:	**MR. KAMLESH BAGMAR - AXIS CAPITAL**
MANAGEMENT:	**MR. PRITESH VINAY – VP – CORPORATE FINANCE & GROUP HEAD, INVESTOR RELATIONS - JSW STEEL LIMITED** **MR. M. V. S. SESHAGIRI RAO - JOINT MANAGING DIRECTOR & GROUP CHIEF FINANCIAL OFFICER - JSW STEEL LIMITED** **DR. VINOD NOWAL - DEPUTY MANAGING DIRECTOR - JSW STEEL LIMITED** **MR. JAYANT ACHARYA - DIRECTOR, COMMERCIAL, MARKETING & STRATEGY - JSW STEEL LIMITED** **MR. RAJEEV PAI – CHIEF FINANCIAL OFFICER - JSW STEEL LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the JSW Steel Q4 FY2019 Earnings Conference Call, hosted by Axis Capital Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kamlesh Bagmar from Axis Capital. Thank you, and over to you, Sir!

Kamlesh Bagmar: Thanks Rayo. Good evening, on behalf of Axis Capital, I welcome you all to the Q4 FY2019 post earnings conference call of JSW Steel. Without much ado, I hand over the call to Mr. Pritesh Vinay who is the VP Corporate Finance and Group Investor Relations. Over to you, Pritesh!

Pritesh Vinay: Thank you very much, Kamlesh. A very good evening to all the participants who dialed in. On behalf of JSW Steel, it is our pleasure to welcome you to our fourth quarter and full year fiscal 2019 results earnings call. I am sure you have had the chance to go through our results, the press release and the earnings presentation, which has been uploaded on the website, and the links to that have been in your inbox.

We have with us today the management team of JSW Steel represented by Mr. Seshagiri Rao, the Joint Managing Director and Group CFO; Dr. Vinod Nowal, Deputy Managing Director; Mr. Jayant Acharya, Director Commercial Marketing and Strategy; and Mr. Rajeev Pai, the CFO.

I will hand over the floor to Mr. Rao for a few minutes of opening comments, and we will then start with the Q&A. Over to Mr. Rao!

M. V. S. Seshagiri Rao: Good evening. We welcome you all for the briefing of Q4 performance of FY2019. Q4 FY2019, we have seen a bit of slowdown in the demand side, majorly caused by the liquidity situation in the domestic market. And at the same time, we also have seen pressure on the prices which started in the Q3 of last year continuing to some extent in the Q4. Considering these headwinds, we tried to liquidate our inventories and increase our sales in the last quarter, and we have succeeded in doing that. So if we see our performance in Q4, we have crude steel production of 4.17 million tonnes. With that, the yearly crude steel production achieved is about 16.69 million tonnes, which is very close to the guidance we gave to you in the beginning of the year.

The sales volumes, standalone basis, in the Q4 were 4.29 million tonnes, which is a growth of 2%. And for the year, we achieved 15.76 million tonnes, again a growth of 1%. On a consolidated basis, the sales stood at 4.31 million tonnes for Q4. And for the year, we achieved 15.6 million tonnes. So our sales volumes really picked up in the last quarter, and we have liquidated our inventories and brought it down to 9.46 million tonnes from 13.91 million tonnes at the end of December 2018.

Our exports have gone up in Q4, which stood at 0.94 million tonnes, constituting 22% of the total volume of sales. Our retail sales were also increased by 3% in the Q4. But for the financial year 2019, what is interesting is, our domestic sales grew by 11% when India grew around 7.5%. So our domestic sales increase resulted in our market share improving by 50 basis points. It went up from 13.1% to 13.6%.

The steel prices on year-on-year basis fell by 2%. Quarter-on-quarter, it fell by 9%. Because of disruptions, which we have seen in iron ore and the coal side in the global markets and also rupee depreciation of almost 6.5% in the last year, the overall cost of production year-on-year went up by 3%. Our EBITDA per tonne on standalone basis was Rs.10,116. The EBITDA was Rs.4.341 Crores and the profit after tax on standalone basis Rs.1,745 Crores.

Our U.S. Plate and Pipe mill reported an EBITDA of 5.83 million tonne for the Q4 and $26.09 million for FY2019. Our coal operations in the U.S.A. reported $1.39 million for Q4 and $5.44 million for the year.

Italy and Acero and Mingo Junction in the U.S.A. are still in the ramping-up stage. So they could not report positive EBITDA. JSW Coated had Rs.86 Crores EBITDA, Salav had Rs.37.96 Crores EBITDA, ARCL had Rs.114 Crores EBITDA, so Indian subsidiaries have done reasonably well.

Taking this performance into account, our consolidated EBITDA compared to standalone was higher by Rs.100 Crores. Our consolidated EBITDA for the Q4 was Rs.4,440 Crores. And for the year, it is Rs.18,952 Crores. So, there is a 28% growth in the financial year in EBITDA numbers. Consolidated profit after tax for the quarter was Rs.1,495 Crores and for the year Rs.7,524 Crores. If you compare the profit after tax of the FY2018 and FY2019, there is a significant growth, because FY2018 numbers also include one-off item of tax benefits that accrued because of reduction in taxes in the U.S.A.

Net debt of the company as on March 31, 2019 was Rs.45,969 Crores. Our average cost of debt has come down to 7.02%. Our debt to net worth was 1.34x. Our debt to EBITDA was 2.43x. There is an improvement in all these ratios, even though in absolute number the net debt has gone up. The acceptances were Rs.1,305 million for revenue and Rs.192 million for capital.

The coke oven plant at Dolvi and the pipe conveyer at Vijayanagar and the tin plate at Vasind and the captive mines of which we started some and balance are starting in this financial year, they are all positives which will contribute for cost reduction in FY2020.

As far as the total capital expenditure is concerned, in the last year, on a cash flow basis, we have spent Rs.9,682 Crores. The balance capital expenditure after netting out the expenditure incurred in FY2018 and FY2019, and then we have committed additional capex of Rs.5,700 crores. This capex is spread over sustainable normal capital expenditure and the mining and the cost saving projects and also downstream capacity expansion like our coating line and CRCA at Vasind.

Capex program entails an expenditure of Rs.5,700 Crores. So the initial announcement of capex of Rs.44,176 Crores plus Rs.5,700 Crores minus whatever capex we have put on hold, that net capex program is Rs.48,715 Crores spread over a period of 4 years starting from 2018. Out of this, net of expenditure incurred FY2018 and FY2019, the balance is Rs.34,344 Crores. Of this amount, we will be spending Rs.15,700 Crores in FY2020, of which Rs.10,000 Crores will be funded by way of debt and balance amount by cash equivalents of the company.

Now with this, I wanted to invite your attention to BF-3 shutdown, which we have planned at Vijayanagar. We have been guiding that we will take the shutdown of BF-3 in FY2020. We have made all the arrangements. We have spent a significant portion of Rs.1,000 Crores earmarked for this project. But whatever we have seen or experienced in the last few months is that BF-3 is operating quite well because of various initiatives we have taken to ensure smooth operational of the blast furnace 3. We are confident now we can now even extend the operations of the blast furnace further without taking shutdown during this financial year.

If we go ahead as originally planned, then this shutdown will have 120 days requirement and, again, ramping up capacity may take some more time. So if we take the shutdown, then we will lose the production and the consequent EBITDA because of the shutdown. Instead of that, if we can extend, we can take the shutdown of BF-3 at appropriate time in future as and when our Dolvi expansion from 5 to 10 is complete.

Keeping that in view, we deferred the BF-3 shutdown during this year in our capex program. That is one. Number two, in the capex program, earlier we announced we will expand our Dolvi capacity from 10 million tonnes to 10.7 million tonnes, 0.7 million, by spending Rs.1,375 Crores by DRI expansion and also other associated facilities. Now we have kept on hold as far as this Rs.1,375 Crores is concerned. So that is also deducted while arriving at the net capex program for 4 years is Rs.48,715 Crores.

Then the special projects and other cost saving projects include coil storage yard, some FGD in the power plant and for tailing reduction at the beneficiation plant, CDQ for coke oven plant, new CTL line, these are the areas where we will be spending the new capital expenditure for reducing the cost or for improving the efficiency.

I am happy to share with you the Board has recommended, considering the performance of the company in the financial year 2019, a dividend of 410% for Re.0.10 per share, subject to the approval of the shareholders.

Looking at the demand scenario and also our capacity to produce more within the capacity utilization, we have guidance for production for FY2020, 16.95 million tonnes, a growth of 1.5%. Similarly, sales volume growth on a standalone basis is 16 million tonne, again a 1.5% growth.

With this, I will stop here. If any questions are there, we are open to clarify. Thank you.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Amit Dixit from Edelweiss. Please go ahead.

Amit Dixit: Thanks. Congratulations for good set of numbers. I have 2 questions. The first one is regarding your overseas subsidiaries that are the Italian asset and the newly acquired U.S. asset. So can you let us know the revenue numbers also for these and the ramp-up plan that you have?

M. V. S. Seshagiri Rao: Okay. We will share with you the revenue numbers for both the subsidiaries. As far as the ramp-up plan is concerned, in the Italian Piombino facility, we are ramping up capacity in FY2020. So we will reach capacity utilization at least in the rail mill and the bar mill. 60% capacity utilization by end of this financial year. It is how we are planning the ramp-up. And it will have a positive EBITDA going forward, at least starting from second half of the financial year. Where Acero Junction, that is Mingo Junction, is concerned, it will take some time because the stabilization of the mill is taking time. So we expect by end of this financial year, we will be able to become positive EBITDA in this Mingo Junction.

Amit Dixit: Okay. Great. That helps. The second question is with respect to iron ore sourcing strategy. Now we know that we need quite a bit of iron ore and going ahead the bidding process is going to start in Orissa, particularly in the period of FY2020. So we might be having our plans, of course, but the iron ore cost is bound to go up and international cost is also high. So what is our iron ore sourcing plan going ahead? What is the strategies that we have just to contain our cost?

M. V. S. Seshagiri Rao: There is one scenario, which we can factor in. If that does not happen, what is alternative strategy for us? One strategy is many of the mines are getting expired, and they have to be auctioned during this financial year. So every mining company will try to maximize the production, thereby, they can make more money in this financial year. So iron ore supplies in this year could be more than what it was in the last year. For instance, in FY2019, the total iron ore produced was 220 million tonnes. So it could be a little higher in this financial year. So availability of iron ore, I do not expect a big challenge in that regard.

Only issue that is left out is that, in case all the mines, which are expiring on 31st March 2020, if they are not auctioned, will there be any disruption? To answer that question, we have been very, very rigorously not only individually as a company, but through various associations that represent us to the government, we are insisting that actions have to be taken by removing the bottlenecks that are there, bottlenecks with regard to regulation, when it is to be auctioned, what is the process to be followed, is there any amendments to be done either to the rules or acts, all those issues today are known and the government is quite aware of the issues. So in my view, they are ready to go for auction starting from July. So by 31st March 2020, there will be auctions done, and there will be a change of control of the mines, and they will also give time to the existing mining companies to lift the quantities that are lying at the mines after March 31, 2020.

So therefore the bottlenecks are understood and solutions are available. So auctions will happen. So there would not be any disruption, based on which we feel that there will be adequate supply of iron ore for sourcing within India itself. Over and above that, whatever mines we have got in the auction, we expect in this year we will produce 5 million tonnes for total requirement of 31 million, 32 million tonne in this financial year. Out of that, 5 million tonne we expect to come from our capital sources.

Just to give you a number, last year, we have produced 1.8 million tonne from captive sources. We used 1.35 million tonnes. Therefore, that will go up to 5 million tonnes. If new mines of category C are auctioned, that also we will try to make them operational if at all they are auctioned in this financial year. We are hopeful that they will do more. That is why iron ore strategy from that point of view is clear for us for sourcing. In case, there are certain disruptions, always the option of sourcing from imported sources is available to JSW.

Amit Dixit: Thanks Sir. Thanks for the elaborate answer. Thank you and all the best.

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

Rajesh L: Yes, thanks for taking my question. Sir, my question is specifically on the auto segment. So we are seeing rising headwinds with regards to auto demand. Auto segment has declined 22% quarter-on-quarter for JSW Steel. So going ahead, do you think that in FY2020, we can see significant demand contraction in auto or do you think some recovery in second half of FY2020?

Jayant Acharya: The automotive production, actually the inventories have been corrected in the last few months, going from the last quarter to this one. Channel inventories are also down. So we expect that in the second half of this year, the cycle will come back. Pre-buying for BS-VI, from April 20, pre-buying will also kick in. So around the festive season and onwards, I think things will improve. The other thing is that part of the sales, which was on the passenger vehicles, two-wheelers, etc., which were impacted by liquidity and uncertainty because of low sentiments, I think now that this political mandate sis behind us, some improvements in that also we expect to see from the festive season as well. So yes, in the second half, we are expecting that automotive will pickup.

Rajesh L: So Sir, can we assume that in the first half, the auto segment will continue to be under pressure?

Jayant Acharya: So we should assume that the auto sector in the first half maybe in a similar kind of a pattern as it was for Q4.

Rajesh L: Understood Sir.

Moderator: Thank you. The next question is from the line of Pinakin Parekh from JPMorgan. Please go ahead.

Pinakin Parekh: Thank you very much Sir. Two questions from my side. Assuming that there is no change in steel prices and steel cost and given the capex guidance that the company has given and given that we could have clarity on Bhushan Power final ruling coming through, where does the company expect the Rs.46000 Crores net debt to end up in March 2020? It should not be Rs.60000 Crores, Rs.70000 Crores, and Rs.50000 Crores assuming Bhushan Power also comes through?

M. V. S. Seshagiri Rao: Debt levels, absolute number may go up, but the ratios will be within the ratios which we have been guiding. Even in this year, when it went up from Rs.38,000 Crores in FY2018 to Rs.46,000 Crores in 2019, this Rs.8,000 Crores debt has gone up, but all the ratios have improved, so therefore similar pattern could be there. There could be an increase. I am not ruling out that possibility in case BPSL happens, steel prices and costs will remain and the capex program will go on. In that scenario, I expect that debt will slightly go up, but the ratios will be still within the range.

Pinakin Parekh: Understood Sir and my second question is on the US acquisition, where there was an EBITDA loss of, I believe, $27 million in the quarter. Annualizing, I mean, that is $100 million plus number. So how should we look at this asset over FY2020, when does it break even EBITDA, when does it start contributing positive EBITDA. Will there investments be required to turn this asset into an EBITDA positive asset?

M. V. S. Seshagiri Rao: Capital expenditure side, I do not think they need a big capital expenditure for turning around because electric arc furnace we already commissioned. Hot strip mill requires some capex, but it is not significant. The issue today is assuming that we will operate the plant, we bought the scrap, slab at a higher prices and some production has happened, whereas suddenly the prices in the USA dropped, as you know. That is causing the inventory losses right now. So if these inventories are replaced with the new scrap and new slabs at current rates, I do not think these types of losses will continue. So our plan is to improve the capacity utilization and ramp-up the capacity as early as possible with replacement of the current inventory. I think then it will become positive.

Pinakin Parekh: Understood. Thank you very much Sir.

Moderator: Thank you. The next question is from the line of Sanjay Parekh from Reliance Mutual Fund. Please go ahead.

Sanjay Parekh: Thank you Sir just wanted to know on this Bhushan Power as to what is the status of that in the NCLT process and also just a hypothetical question that, we just hear that the liabilities perhaps could go up in that case because of some submission given by some potential creditors. So in that case, legally how does it go, I mean in case, we want to backout because of the liability going up, can we do that, if you can guide that, it would be helping us?

M. V. S. Seshagiri Rao: No, it is not the question of backing out. We prepared and have submitted a resolution plan, which has been voted by the lenders or CoC. So any decision or any approval of the resolution plan, not in consonance with the resolution plan submitted by the company, and then we have to take a call on that. For instance, if you look at Vardhman, where we submitted a resolution plan and the approval of NCLT has come not inline with our resolution plan submission. Therefore, we went for an appeal to the NCLAT. NCLAT said, you go ahead with the resolution plan implementation, but subject to his decision as and when hearing is complete. But we did not want to go ahead with the resolution plan implementation when the decision was unknown and it could have gone against us even. So we went for an appeal to the Supreme Court and got a stay on implementation until the court decision came in. So that is how we would like to deal with whatever resolution plan that has been submitted. If it is inline with that, the judgment, then we would like to implement and go ahead. If it is not inline with that, then we would like to evaluate that and take a call.

Sanjay Parekh: Thank you very much Sir.

Moderator: Thank you. The next question is from the line of Indrajeet Agarwal from Goldman Sachs. Please go ahead.

Indrajeet Agarwal: Thank you for the opportunity. Couple of questions. One, on your Note 5 in the BSE release, the reversal of or the realization of the grant income, so the entire Rs.270 Crores has been recognized in the P&L in fourth quarter, is that understanding correct?

M. V. S. Seshagiri Rao: Yes. This is the practice, which has been followed consistently. It is not that we recognized only in the last quarter. As we have earlier mentioned about the new procedure for claiming the incentive that is announced by the Maharashtra government, they have put certain conditions. Out of that, one is related party, any sale within the related parties who cannot get the incentive. So they have now issued a revised notification permitting that. There are two more issues. One of them is electricity duty. Electricity duty is over and above the incentive. That is what the government has extended to us because there is some drafting gray area in the revised procedure, which they have announced. For that, we have got a legal opinion that claiming electricity duty exemption over and above the incentive is inline with the original sanction of incentives for the company. Therefore, we need not deviate from that policy. Whereas we have quantified by a note here, in case government says no, then the impact could be so much. But we do not anticipate that type of decision. We have a very strong legal opinion saying that the basis of sanctioning the incentives cannot be reversed by subsequent change.

Indrajeet Agarwal: Sure and that is helpful. Secondly, it is more of a general outlook question, given the current macroeconomic scenario globally in terms of trade war, weakening demand across the globe, how do you foresee the steel prices both globally and India over the next 6, 12 months?

Jayant Acharya: So if you look at the steel prices in the month of December, January, they bottomed out internationally at a level of about $480, FOB for hot-rolled coil ex China. The same increased to about $530 level in the month of March. We see a slight softening on that. As we speak today, the average for May has dropped by another $10.

M. V. S. Seshagiri Rao: There is some impact on the positive side because of some production cuts, which have been announced by Arcelor in Europe. So Arcelor has tried to increase the prices by EUR 30 in Europe, post that production cut. Also scrap prices have increased, iron ore prices have increased. So therefore, we are seeing certain sections, like Turkey has started announcing certain increases in that part of the world. With iron ore holding at these levels and core also continuing to be elevated, either of the things has to, either steel prices move down or the iron ore and coal will correct. So we do hope that these movements will synchronize sooner than later.

Indrajit Agarwal: Thanks. One last question, if I may. So for Bhushan Power, we were trying to rope in another financial partner. Any update on that? Any kind of talks that we are in on that front?

M. V. S. Seshagiri Rao: In fact, last time also we clarified the same point. In the case of BPSL, we have got the CCI clearance based on our submission for EoI and resolution plan to the lenders. So JSW Steel submitted its whole name. So therefore, it is not possible to complete the transaction to rope in any financial investor at this stage. So therefore, as and when the approval comes from the NCLT and once we decide to go ahead, then we will be able to share more information about the structure and the details of funding.

Indrajit Agarwal: Thanks a lot that answers my question.

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

Bhavin Chheda: Good evening Sir. Congrats on good set of questions. So few questions. On your revised capex of Rs.5714 Crores, which also includes mining capex, so this includes a figure for the development of the mines which you plan to bid in future? Or this does not include that number?

M. V. S. Seshagiri Rao: It does not include that number. Itexisting mines plus the Moitra coal mine, which will get operationalized by January 2020. This is exclusively related to that.

Bhavin Chheda: So this is the number of the 5 iron ore mines and 1 coal mine, which you already have won and you are developing, right?

M. V. S. Seshagiri Rao: Correct. 6 mines.

Bhavin Chheda: 6 mines. And the earlier question reply. As you said, you expect the auction of iron ore mines process to begin this July?

M. V. S. Seshagiri Rao: Yes.

Bhavin Chheda: Okay. And which states you think so basically it is Odisha, Karnataka and maybe some mine in Chhattisgarh. So which you think can come up early and are already ready with the process already? Because the big mines are in these two, three states only, which are merchant mines are expiring. So which you think is Odisha ready, Karnataka ready or what is your outlook on it?

Vinod Nowal: In Karnataka, we got six mines in C category auction, three mines are in operations and fourth mines are going to start in next month. And another two mines will come in operation one in July, another will in August.

M. V. S. Seshagiri Rao: And the mines - when new mines will get auctioned, which state will be first, is that what you are asking?

Bhavin Chheda: Yes.

M. V. S. Seshagiri Rao: We expect Karnataka government issuing that. It will be stable going forward. We expect Karnataka should start auction of mines early than Odisha. In Odisha also, I think, July, August onwards it should start as the same government got elected. So they are quite aware of the issues and they have taken lot of steps to expedite the process of auctions. In both the states, Odisha and Karnataka, it should start in July.

Bhavin Chheda: And Sir, one more question on this. So as you said, the current production was close to 220 million, which is expected to increase. So there is lot of iron ore production already there. So what would - according to you would be the inventory situation in your strategy because even if the auction is delayed and there is no visibility, is there a situation where we can create an inventory or other steel companies also can create an inventory, because there is already a lot of iron ore in the country, but it is the steel companies, which would not be having at their end? So in the worst-case scenario, is there a possibility of booking the iron ore before the deadline, before getting any visibility on how the situation pans out post March 2020?

M. V. S. Seshagiri Rao: No. At least the mining companies are claiming that, in Odisha, they have 127 million tonne of iron ore stocks lying in the mines. And in the state of Karnataka, they are claiming 10 million tonnes of iron ore stocks are lying at the mines. So there is a large amount of iron ore lying at various places. Why this iron ore is not getting sold now - right now, particularly in Odisha, if I look at it, is logistics constraint. It is not possible to move the material. Even assuming there will be a disruption, there is a problem, all this issue, there is iron ore available in the mines, which can be moved in that event. That is one comforting factor. The second point is whether we have to stock the iron ore assuming that there will be a disruption- that we will continue to evaluate the ongoing situation. Based on that, we will take appropriate steps to build inventory.

Bhavin Chheda: Okay. And the last one, Sir, on the U.S. and the Italy operations, I missed out, I think, if you clarified it. So both reported quarterly losses, so how should we take that going into FY 2020? When does it turn positive?

M. V. S. Seshagiri Rao: The Mingo Junction will take some time whereas Italy is concerned, we expect the capacity utilization will be ramped up faster to 60%, 61%. From third quarter onwards, we feel that Piombino should start showing positive EBITDA. And in the case of Mingo Junction, by end of this financial year, last quarter of this financial year, we will be positive in that, by the time all the ramping up will be done. Second is existing expensive inventories will get exhausted, and then we will come back to normalcy by Q4 2020.

Bhavin Chheda: So this $27 million, $28 million EBITDA loss for the quarter in the U.S. operations, so it would be around or more that figure including the inventory loss? There was no one-off here, right?

M. V. S. Seshagiri Rao: Yes. That would be very difficult to say whether it will continue or not, because we have, let us say, expensive stock. It depends upon how these prices of both input and output move. Based on that, we have to take the write down on existing inventories. So the point is so if it has to become a positive EBITDA, it will take some time in the Mingo Junction.

Bhavin Chheda: Okay, thank you Sir and best of luck.

Moderator: Thank you. The next question is from the line of Abhijit Mitra from ICICI Securities. Please go ahead.

Abhijit Mitra: Thanks for taking my question. On Bhushan Power, by what time do you expect resolution on name, because we have also raised almost $500 million for the upfront payment to the lenders? And what can be the possible set of outcomes? Can the possible set of outcomes also be we walking away from the deal? If you can just give some more clarity on that.

M. V. S. Seshagiri Rao: I do not know who told you that we raised $500 million for Bhushan Power and Steel. We raised in our normal course this $500 million bond issue for capex program. As regards to your question on BPSL, we ill clarify that as and when that decision comes. As long as it is within our resolution plan parameters, we will go ahead with the transaction. If anything is not in line or in consonance with the resolution plan, then we will take a call. So now we are waiting for the order of the NCLT. So whatever concerns we have with regard to any liabilities that may come in, we have asked for specific reliefs and grants as a part of the resolution plan. So that is why we would like to wait for the order to see whether those reliefs in line with the resolution plan. If it is not, then we will take a call at that time.

Abhijit Mitra: Okay. And also if you can give some update on Monnet Ispat. And how have the operations ramped up in the quarter and whether you have reached the, sort of, watermark that we feel comfortable to take the assets in our books? When will that process start? Any guidance on the same?

M. V. S. Seshagiri Rao: Monnet Ispat, the DRA plant is operating at 100% capacity utilization. And in the case of pellet plant, it is operating at 1.8 million tonne capacity so it will get ramped up further to 2 million unit capacity, and we are expanding to 2.4 million tonnes. Second half of the year, we will go to 2.4 million tonne capacity utilization in the pellet plant. Whatever cost of production vis-à-vis the selling prices, if we look at DRA and pellets, if we sell DRA and pellets, there will be a reasonable amount of EBITDA in Monnet Ispat. But we do not want to be an operator of DRA and pellet. We wanted to have an integrated operation so for that integrated operation, we have started electric arc furnace, caster, blast furnace and the TMT mills. All these are started. It is in the initial phase of stabilization. That is why the costs are higher in the integrated steel operation so whatever EBITDA that is getting generated in the pellet and DRA, that is getting eaten up in the integrated operation. This will continue for some time so FY2020 is a year for turning around this company. In the case of TMT, we are moving into alloy product of long products in Monnet so that will happen hopefully by second half of this financial year so with that, I think, integrated operation will be more promising than what is today so at least 6 months to 1 year time we have to give to ensure the integrated operation becomes profitable in the Monnet.

Abhijit Mitra: Okay so at least 1 year before we think of reaching that benchmark, so way of looking at it, right?

M. V. S. Seshagiri Rao: Yes. We have indicated, in fact, 2 years. Actually, just 8 months have passed.

Abhijit Mitra: Okay thanks that is all from my side.

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

Dhruv Muchhal: Thank you. Sir, on the Dolvi expansion, can you throw some light on the likely volumes for FY2021? And how do you see the ramp up?

M. V. S. Seshagiri Rao: We do not give the location wise. As we mentioned that we will achieve 16.95 million tonne total production. That is 260,000 tonnes more than what we did in the last year, that is FY2019 so a majority of this growth in production will come from Dolvi and Salem, not from Vijayanagar. Vijayanagar is more or less fixed.

Dhruv Muchhal: Sir, just wanted some color on the Dolvi expansion, the 5 million tonne if how the ramp up will be?

M. V. S. Seshagiri Rao: Dolvi expansion, we will complete by March 31, 2020 so we have not taken any production from expansion this year. Then next year, the capacity utilization, generally any new project when we start, it will be in the range of 70%, 80%, if there is any.

Dhruv Muchhal: Okay. Sure. And sir, secondly, in the balance sheet in other financial liabilities, we see a sharp increase. Is this largely because of the short-term debts, current maturities of long-term debts?

M. V. S. Seshagiri Rao: There is $500 million of bonds, which we raised in the year 2014 that is falling due in this financial year so that moves to current liability from the long-term borrowings. That is why you have seen a sharp rise in that item.

Dhruv Muchhal: Okay. Sure. And Sir, if you can please just repeat the acceptances for revenue? You mentioned, I just missed the amount.

M. V. S. Seshagiri Rao: Acceptances for revenue is $1,305 million.

Dhruv Muchhal: Sure Sir. Thanks a lot.

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

Ashish Kejriwal: Thanks for the opportunity. Sir, just two quick questions on P&L. One, we have seen our power and fuel cost declining sharply from third to fourth quarter. Is it because of that grant income, which we were talking about claiming electricity duty exemption?

M. V. S. Seshagiri Rao: No, no. I think, I clarified that point. Duty is consistent. Duty exception claiming is consistent with Q3 or in previous years. There is a procedure that has been laid down for claiming the incentive on electricity duty so that drafting there is an issue. Based on the legal opinion we can continue the earlier process. Therefore, that is not the reason. Power cost has come down in the last quarter because the thermal coal prices have come down so that is the reason why you will find sharp correction in the power cost.

Ashish Kejriwal: Is it because of mix of thermal coal or normally we import thermal coal, and that import prices have come down, that is what you are saying?

M. V. S. Seshagiri Rao: Yes. We have 600 megawatts of coal-based power plant at Vijayanagar so we import thermal coal for that unit so that has an impact. And there are natural gas prices that also got corrected so there is some benefit on account of gas.

Ashish Kejriwal: Okay and sir, secondly from quarter-on-quarter basis, how much blended realization per tonne has declined for us, and what is the current state of affairs on that?

M. V. S. Seshagiri Rao: Quarter-on-quarter, the realizations fell by 9%. Year-on-year it fell by 2%. Then the outlook for future, he will explain.

Jayant Acharya: No as far as the realizations are concerned, I think our effort is to see that we keep on moving up the value chain and, therefore, try and derisk our commodity products to the extent possible so if you see in this particular year, we have more material coming in from the tin-plate side, which has just been commissioned last month end. We are having more value-added products coming in from our coated plants and the startup of some of the facilities at Vijayanagar as well. We have pickle and oil coming in from Vijayanagar also in this particular year so the mix is going to be changing, and thereby we would be achieving a better product mix and therefore a better value addition in this year. That would improve the realization somewhat as far as the markets is concerned, I would not like to hesitate a guess at this point of time, and I think it is difficult to do that. But the way it seems today, it seems to be range bound and stable. Because of the iron ore prices and scrap prices going up, there could be a possibility of prices going up to some extent. We will watch the scenario and then take a view.

Ashish Kejriwal: Because, Sir, when we are seeing 9% decline, I think, we have included in that because we have increased our exports so there could be because of geographical mix our decline in realization was sharper than what our peers have here? Or is it possible to quantify what was the decline in realization on a domestic basis?

Jayant Acharya: I think you are right on that part. If you see our exports in the Q3 was very low as at that point of time, and the prices had gone down sharply to $480 FOB level as far as China was concerned, just as a reference point. We had consciously reduced our exports in Q3 so Q3, our exports were 340-odd thousand tonnes. We were at 15% level. We increased that exports in quarter 4 to 22% of our total sales, 940,000 tonnes plus so this 600,000 tonnes had an effect on the EBITDA margin on a blended basis. Yes, domestic also went down, but impact of the export volume increasing and the product mix change was one of the main reasons, because we liquidated a lot of inventories, which had accumulated in Q3.

Ashish Kejriwal: Sure. And Sir, lastly, on a macro level, because we are one of the producers who are aggressively doing capex on now for the next two years, despite the fact there is a fear of trade war and other things on the macro geographical area outside India so that means we are very much sure about the domestic potential so my question is, are we aggressively pushing the government for the safeguard duty as well?

Jayant Acharya: Yes so we have taken up with the government to take appropriate trade measures post the actions taken by other countries like U.S., Europe, Canada, Mexico, Turkey, etc. I think that we explained last time as well, that situation has been explained to them. The imports have increased. If you see in the last quarter, imports have gone up. For the year, it has gone up. Exports have come down so therefore, the situation is clear to the government. I think once the new government comes back into power, we would be taking up again the issues with them, and we are hopefully that they would take appropriate steps to mitigate this.

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

Moderator: Thank you. The next question is from the line of Ritesh Shah from Investec Capital. Please go ahead.

Ritesh Shah: Hi Sir, thanks for the opportunity. Sir you indicated that iron ore and coal prices are moving up and the steel prices are range bound. Sir, how should we look at the spreads going forward given we have invested so much into downstream and cost saving projects? Sir, if you could quote a number basically what is the kind of number on value addition and on cost savings that one can expect in FY2020 and FY2021, respectively, considering we have nearly Rs.20000 Crores committed towards downstream and cost saving projects?

M. V. S. Seshagiri Rao: One to give you a number, what will be the cost savings or what will be the EBITDA, that is very difficult to quantify that number because there are a lot of moving parts here. But what I will be able to say that the projects which we have commissioned, like coke coal plant at Dolvi, now 100% of the coke that is required by Vijayanagar it will be supplied by Dolvi unit so that will reduce the cost substantially. That is one. Number two, the pipe conveyor, which is now fully operational. Our plan is 11 million tonnes of iron ore will be supplied through pipe conveyor. And the captive mines, which we are operating 5 million tonne in this year as against 1.8 million tonne last year, so that will replace the iron ore that is either imported or bought from Orissa, which is expensive relative to this so that will give us again cost savings.

And the fourth item is relating to increasing the PCI in our blast furnace. That will give a significant savings for us in this financial year, both at Dolvi and also at Vijayanagar. Then the product mix side, the tin plate, which we have commissioned at Tarapur, 250,000 tonnes, so that, will give us again incremental realizations to us. There are several areas of this nature, which will allow us to reduce the cost and also to improve the mix realizations.

One point, which I would like to highlight, the actual standalone basis, the EBITDA per tonne is Rs.10,100. On a consolidated basis, the EBITDA was Rs.10,300. This is after taking into account 22% we have done exports in the quarter. Whereas, overall export trend if you see, FY2018, we did 3.6 million tonnes. In FY2019, we have done 2.4 million tonnes, so exports have fallen. The guidance is even FY2020 our exports may have a similar trend where it will come down over FY2019 so there is more of geographical mix that also contributes to overall improvement in the realizations and also in the EBITDA margins so there are areas which we can identify, but quantification of everything and giving a number is very difficult for us.

Ritesh Shah: Sir, if I have to put it the other way around. Knowing you, you would have definitely done the hurdle rate around this Rs.20000 Crores of capex what we are incurring on value addition and costs in projects. Sir, if you can just help us understand so obviously, it is easier to understand to put a number against it. And if project is for this large capex, it directionally becomes a bit difficult. Can you just help understand?

M. V. S. Seshagiri Rao: Yes, our hurdle rate is 15%, IRR.

Ritesh Shah: Okay. And Sir, that starts to hit from which year of operation?

M. V. S. Seshagiri Rao: Sorry?

Ritesh Shah: Sir, 15% IRR that is from year two of operations or from immediately commissioning of the project?

M. V. S. Seshagiri Rao: No, it is life of the project.

Ritesh Shah: Okay. And so factoring the utilization level, Sir?

M. V. S. Seshagiri Rao: Utilization level?

Ritesh Shah: Yes.

M. V. S. Seshagiri Rao: Utilization level, I already clarified. Generally, any new project at a blast furnace if we start, in the first year, it will be in the range of around 70%, and then it gets ramped up.

Ritesh Shah: Okay. That helps, Sir, my second question I, just missed on the GST reference. I think, in the last quarter you had indicated that there was Rs.1800 Crores of line item, which was there. I see the receivable number for standalone operations, also it has moved up so is it still on the back of that or does anything moved besides that?

M. V. S. Seshagiri Rao: No, it has further gone up. That way the amount of incentive refunds, which have to come from the government, is going up. If you see the procedure that has been announced by various governments, now the refunds of incentives will be given only once in a year. That too, you have to submit the return so there is a lot of process involved so the outstanding GST refunds which we have to get or incentive refunds we have to get as on March 31, 2019, is Rs.2,500 Crores.

Ritesh Shah: Okay thank you so much Sir. I will join in the queue.

Moderator: Thank you. The next question is from the line of Raashi Chopra 54:39 from Citigroup. Please go ahead.

Raashi Chopra: This is Raashi here. Just going back to pricing, again. How has like whereas spot prices for both flat and long versus the previous quarter? That is one and second is, how about the iron ore cost now versus what you saw in the fourth quarter?

Jayant Acharya: As far as the prices is concerned, I think, we give you a flavor that price has came down to about $480-odd, I am giving you the numbers internationally and moved to $530 exiting of the Q4. I think at this level, as we said, the prices in the month of May has dropped by another $10 so the average for May would be so far $520-odd. This is as far as the international numbers are concerned, just to give a thought process on what would reflect in the domestic market. But as far as longs is concerned, I think, again, it did move it went down, bottomed out in December end, and then went up and again there is a marginal drop in the month of May. And it has stabilized around that level, as we speak today. I would like to avoid sharing numbers at this point of time, because these are again 2 moving and difficult to put a number to it.

Raashi Chopra: Sir, and on the iron ore cost?

Jayant Acharya: Iron ore cost from again, from international side, it was $65-odd this last financial year, and that has moved up steadily as we just discussed. As far as coal is concerned, on a FOB basis, coking coal has moved up from $188 hard coking coal on FOB Australia basis to the current levels of about $205-odd. FOB basis, FOB Australia, not our blend.

Raashi Chopra: Sure. Just one clarification on iron ore. Given that you are sourcing quite a bit domestically and the domestic prices have not moved as much so from your perspective, how significant is the move like currently versus that you have in the fourth quarter?

M. V. S. Seshagiri Rao: Iron ore prices, you are right, has not moved up as far as NMDC is concerned so we are watching. Compared to the Q4, it is similar levels. I do not think there is a big reduction in the iron ore.

Raashi Chopra: Thank you.

Moderator: Thank you. Due to time constraints, we will be able to take one last question. We take the last question from the line of Vikas Singh from Phillip Capital. Please go ahead.

Vikas Singh: Good evening Sir. Sir, I just want to understand that recently U.S. is allowing Canada and the Mexican steel exports/imports to come into the country. Now given that scenario, when you are talking about the turnaround of your Acero Junction, so have you factored in there is probably a price correction in the U.S.?

M. V. S. Seshagiri Rao: No. When we did the acquisition, we never thought or never factored that the 25% duty will continue forever so it has to go on some date so therefore, it is already factored, so we wanted to operate this as if the duties are not continued so therefore, it is all factored in the scenarios. And we say that, by end of this financial year, Acero Junction will become positive EBITDA.

Vikas Singh: Okay and Sir, secondly, just wanted to understand coking coal consumption cost this quarter and how do you see is going into next quarter?

Jayant Acharya: Coking coal consumption, you are talking with respect to the...

Vikas Singh: Q4 versus what is our expectation for the Q1 FY2020?

Jayant Acharya: Yes so last quarter our price went up by $5. We had indicated that it would go up, up to $10. It has gone up by $5. And we expect in quarter 1, it will remain at the level of Q4.

Vikas Singh: Okay Sir that is all from my side. Thank you for taking my questions.

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

M. V. S. Seshagiri Rao: Takeaway, we will complete the projects expansion as planned by March 31, 2020. During the year, downstream projects and some cost-saving projects also will get commissioned. Plus, the projects which we have commissioned in the last year, it starts giving the benefits to us, including the pipe conveyor. Then there will be 1.5% growth in volumes and also change in the geographical mix and product mix in this year so these are the positives, which will come in financial year 2020.

Only one point I would like to add at the end is that there are some press reports that the Samruddhi scheme that is ESOP scheme announced by the company to the employees below L15 grade, that is Vice President and below, those employees scheme, which we sought approval from the shareholders, there are some reports in the press that it is not in compliance with SEBI guidelines, and the scheme is not transparent. There are two observations we have got queries. We will try to clarify, but it has not come in the press so I would like to bring to your kind attention that this ESOP scheme, which we have announced, is to ensure that the benefit of the value creation in the company will be shared by all the employees. Earlier, this scheme was operating only the senior management grade. Now we have extended to everybody in the organization, even below L15 grade.

It is again as per SEBI guidelines. Any buying of shares under ESOP through secondary market it has to be administered through trust, so we followed that guideline. At the same time, we arranged the loans for the employees to buy in their name the shares with locking of 2 years, and company will subsidize 75% of the interest payable by the employee to the lending agency. At the end of two years, they have every right to go ahead and sell the shares or retain the shares. This is briefly the scheme, which was clearly explained in our communication to the employees in the explanatory statement. But based on certain reports, the press has picked up that and reported that it is not in compliance of SEBI guidelines, and it lacks full information so I wanted to clarify that it is fully compliant with the SEBI guidelines, and we have transparently disclosed all the details in our explanatory statement. If anyone of you wants any further details, our Investor Relation Department is open to clarify further on this issue. Thank you.

Moderator: Thank you very much. On behalf of Axis Capital, that concludes the conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.