"JSW Steel Limited Q4 FY2018 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the JSW Steel Limited's Q4 FY2018 Earnings Conference Call hosted by Investec Capital Services. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call 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. Ritesh Shah from Investec Capital Services. Thank you and over to you Sir!

Ritesh Shah: Thanks Lisaan. Hello everyone. On behalf of Investec Capital, I welcome you all to today's discussion. We have JSW top management along with us. I would like to hand over the call to Mr. Pritesh Vinay, Vice President, Capital Markets and Group Investor Relation to take this further. Over to you Pritesh!

Pritesh Vinay: Thank you very much, Ritesh. A very good evening to all the participants who have dialed in for the fourth quarter and fiscal 2018 results of JSW Steel. I am sure you have had the chance to go through the earnings release, the press release and the presentation, which has already been uploaded on the website. We have with us today the senior management team of JSW Steel represented by Mr. Seshagiri Rao, the Joint Managing Director and Group CFO; Mr. Jayant Acharya, Director, Commercial and Marketing; Dr. Vinod Nowal, Deputy Managing Director; and Mr. Rajeev Pai, the CFO of the company. So we will start with a few minutes of opening remarks by Mr. Rao and then we will open up the floor for Q&A. With that, over to Mr. Rao!

M.V.S. Seshagiri Rao: Just I wanted to take a few minutes before we take the questions. There is a clear rebound in the steel demand globally and also in India. Global steel demand, we find there are some structurally positive developments. I am trying to just explain about the key industry positive rebound in the steel demand in the last quarter. Globally, I am saying that because of the structural factors like Chinese supply-side reform and the discipline they have followed in moderating the export, they have got lot of semblance in the overall demand/supply situation and the price increase globally, further aided by cyclical rebound in the overall steel demand that contributed for the steel prices to look up.

In India, there are two important factors we have seen in the last quarter. India produced very good quantities in the quarter four and became the second largest producer of steel in the world replacing Japan. The second, which is very positive, is that the elasticity of steel demand picked up, which used to be below the GDP growth rate, picked up to 1.18x in the last year. So that clearly indicates that the steel user industries are doing extremely well, particularly the automobile, yellow goods, infrastructure, water pipeline, gas pipeline, metro stations. So these all contributed for this elasticity of steel demand to GDP picking up quite substantially in the last quarter. So what we have seen is that the momentum started picking up from December onwards and the steel demand is quite robust both globally and in India.

In this context, if you look at JSW Steel performance, it is one of the extraordinary performance in the last quarter. We have given the guidance at the beginning of the year. So we could achieve 98.6% of our production guidance, and we have achieved 101% of our sales guidance for the year. If I look at the Q4 performance, we produced 4.31 million tonne of steel. We have reduced our inventories by 1,60,000 tonnes and sales growth was 7%, we sold 4.22 million tonnes. In the sales side, we have done a lot of things. We have moderated our export sales to 15% of total in the last quarter. We increased our domestic sales by 41%. Our consolidated market share last quarter was 14.6%. Our South and West share of sales have gone up to 86%. Our auto steel sales went up. Our value-added steel product sales went up.

So all these have contributed for improvement in the margins notwithstanding the cost pressures coming from higher iron ore prices, higher coking coal prices, higher natural gas prices, higher electrode costs, higher graphite cost, so in spite of all that, we could improve our margins. Our margin per tonne was Rs.11,953 per tonne, which is 25.7%. Our net sales went up. Our EBITDA for stand-alone company was Rs.5,043 Crores showing a growth of 68%. Our net profit for Standalone Company was Rs.2,235 Crores.

Then the consolidated results are concerned, we have done again well in our U.S. Plate and Pipe Mill. It contributed $3.25 million EBITDA for the quarter. Our U.S. coal mine started contributing. It contributed $0.6 million of EBITDA in the last quarter. Domestic subsidiaries have done well. All this together, the consolidated EBITDA for the quarter was Rs.5,291 Crores, showing a growth of 67%. Our profit after tax is Rs.2,880 Crores, showing a growth of 186%.

For the financial year, we achieved 16.27 million tonne of production, 15.62 million tonne of sales. Our EBITDA for consolidated basis was Rs.14,794 Crores. Our profit after tax was Rs.6,113 Crores. Now in these results, there are two one-off items, which I need to explain. One is incentive. VAT incentives, which we used to get pre-GST. In the post-GST, we were waiting for the government to announce how these incentives will be extended. So they have issued notification in almost all the states where we are present. The VAT rate, which used to be 5%, pre GST rate right now is 9%. So effectively, the state taxes went up from 5% to 9%.

Earlier, the incentive used to be calculated based on 5%. Now the government has said that the incentives will be given based on 9%. So the differential 4% is accounted in this quarter. So the total incentives accounted is R.524 Crores. Out of the Rs.524 Crores, Rs.367 Crores pertaining to the previous quarter of previous years. One more thing, which I would like to give information here, out of Rs.524 Crores, only Rs.108 Crores belong to previous year. So Rs.524 Crores minus Rs.108 Crores belongs entirely to this year. As far as quarter is concerned, only Rs.157 Crores is belonging to this quarter. So when I say that my EBITDA for the quarter is Rs.11,953 per tonne out of that Rs.367 Crores pertaining to previous quarter or previous year is accounted in this quarter. So you have to adjust to see my underlying EBITDA per tonne, if you take out this for the quarter. This is one.

The second point is relating to the U.S. Plate and Pipe Mill. Last quarter, we have accounted for Rs.572 Crores on account of tax liability coming down as the tax rates have come down to 21% in the U.S. In this quarter, we have accounted the accumulated losses as deferred tax asset because U.S. Plate and Pipe Mill started doing well, and there is no emphasis of matter by auditor, and the outlook is very buoyant. Considering these factors, the deferred tax asset has been recognized to the extent of Rs.726 Crores. So this amount you will find in the consolidated balance sheet as a deferred tax asset. To that extent, the consolidated net profit is up. These are the two items, which you have to look at for seeing what is actually the underlying operational EBITDA and the underlying net profit.

The other important area is that our debt has come down to Rs.38,019 Crores. The effective interest rate has come down to 7.04%. So we could use the surplus cash to clear the debt. We have reduced debt by Rs.3,500 Crores for year ended March 2018. The acceptances outstanding on revenue account are $1,293 million and in the case of capex it is $188 million. Our board has recommended a dividend on the equity share of Rs.3.20 per share, that is 320%, and it will be put up to the shareholders' approval, which will happen in July.

Then we come to our capital expenditure program. We have announced last year Rs.26,815 Crores of capex. Out of that, we incurred Rs.4,690 Crores during the year. After having seen the kind of rebound in the steel demand and the demand outlook going forward and also the overall installed capacity of 130 million tonne versus the actual production that has happened in FY2018 of 104 million tonne of finished steel, we expect there is a clear shortage of steel, which would happen, if no new capacity is quickly coming in India. Therefore, we have to accelerate our capex program and create more capacities to meet the domestic demand. So the board has cleared an additional capex of Rs.17,600 Crores. So Rs.26800 Crores, which we are given last year and Rs.17,600 Crores, total together is

Rs.44,400 Crores, is the capital expenditure program, including that announced last year. This capital expenditure is spread over a period of four years, including last year.

So once we complete this capex, what is going to happen in regard to JSW Steel's overall capacities are concerned? Today, we are 18 million tonne, so we are increasing capacity of crude steel by 6.7 million tonnes. So last time, we gave 5 million tonne of expansion at Dolvi. So we are doing further capacity expansion by another 0.7 million tonnes. So instead of 5 million, we are doing 5.7 million tonnes by increasing the DRI capacity of the Salav unit, majorly that is what is happening. This is happening at a very low cost. So this is one expansion we would like to take it up.

The second is at Vijayanagar. We have explained you last time that BF-3 once we modernize, we have one million tonne of incremental hot metal that would come in and BF-2, cost of hot metal is expensive relative to BF-3. So instead of spending money on the downstream for creating more capacity to handle the hot metal, we would take the shutdown of BF-2. So after having seeing the kind of rebound in the demand and the realizations and the margins, which are there, we feel it is in the interest of the stakeholders to commit capital expenditure to create more handling capacity in the melt shop and also in the rolling capacity to handle the incremental one million tonne.

So instead of taking shutdown of the Blast Furnace-2, once BF-3 revamping is complete, so we would like to create more capacity in the melt shop and also in the rolling capacity. So we wanted to increase a million tonne more capacity in Vijayanagar, 12 million to 13 million tonnes. So one million tonne extra at Vijayanagar, another 0.7 million tonnes at Dolvi, so 1.7 million plus 5 million, so total 6.7 million tonne of crude steel capacity will get commissioned by March 31, 2020. This is one thing.

The second is in the case of downstream; we are effectively increasing an additional 3.34 million tonne of capacity we are creating in the downstream. So we are today, 5.1 million tonne and going up by 3.34 million tonne downstream capacity. As a part of this, we are increasing color coated capacity by 0.2 million. 0.9 million tonne incrementally. We are also creating a tin plate capacity of 0.5 million tonnes. So we have complete additional capex in the downstream.

We also identified additional capex programs, backward integration like additional coke oven plant, additional pelletization plant, additional power plant and some more cost-saving projects. So those projects are being taken up at normal capex. All this together, the total capex is working out to Rs.44,400 Crores. This amount will be financed Rs.25000 Crores by debt, balance out of cash equivalents. The phasing of this capital expenditure, in the

2018-19, we will be spending Rs.10,000 Crores, 2019-20 Rs.15,000 Crores, balance in the year 2020-21. This is about the capex.

Then as regards to our overseas acquisitions, whatever we have announced in the U.S. the Acero / Mingo Junction acquisition, a 3 million tonne facility. We have almost completed our due diligence. So we will be closing that transaction shortly. There is $80 million of equity value, which we will be paying for 100% of equity and there is approximately $100 million debt in the company. Another $40 million to $50 million we need to spend for starting the operations. So this, we will be completing the transaction very, very shortly. This has high potential in our view, particularly being in the U.S. and those markets are looking far better. Margins are quite healthy. It is a 3 million tonne facility with a backward integration of 1.5 million tonnes.

In Europe, we are looking at Lucchini, and the due diligence is going on. We will be able to share more information by end of the quarter. In India, the IBC side, there is not much progress we are seeing. Most of the cases are going into litigation, which, in our view, is likely to take more time. Even Monnet resolution plan has been approved by the CoC; it was submitted to NCLT and hearings are going on. It may take some time. In spite of receiving the CCI approval, pending NCLT approval, we will not be able to complete the transaction. So we expect some more time it will take. That is why we pressed our button more on the organic growth. We will be able to really create these capacities in the next two years' time, 6.7 million tonne of incremental crude steel capacity and 3.34 million tonnes of incremental downstream plus cost savings. There will be incremental EBITDA that would accrue not only from volumes, but also out of the cost-saving initiatives the company has taken.

As regards to overall debt to EBITDA and debt to equity are concerned, I think we have deleveraged to a large extent. There is enough headroom we have created relative to the guiding financial ratios. Our debt to EBITDA was 2.57x as on March 31, 2018. Our debt to equity is 1.38x. So we have brought it down quite significantly and the enough headroom for us not only to complete this capex program, but also to look at any inorganic opportunities that may come in future.

Guidance for next financial year; as our overall capacity is not going up in FY 2019, so we are mostly focusing on squeezing the existing capacity and also changing the mix, increase our market share, particularly in the south and west, increase our value-added products and complete some of the projects like coke oven plant, pipe conveyor and some of the other cost-saving projects where we have spent some money in the last year. So they will get commissioned and the cost savings will accrue to the company. Taking that into account, our guidance for production is 16.75 million tonnes, which is 3% growth over last year. Our sales will be 16 million tonnes, 2.5% growth over last year. This is the guidance for production and sales numbers for FY2019.

The steel demand for FY2019 we expect it would be in the range of 7% to 7.5%. It is based on two assumptions. One assumption is, last year; we have seen the elasticity of steel demand is 1.2x of GDP growth. If we take that into account, this should be 8.5%, 9% should be the steel demand growth for FY2019. At the same time, if we look at user industry, like infrastructure, automobile, packaging industry, construction industry, real estate and apply the kind of expected growth in those segments based on their proportion of steel consumption, we are arriving at a demand of around 6% to 6.5%. So taking into account both these factors, minimum steel demand growth for FY2019 is in the range of 7% to 7.5%. So with this, I will stop here. And any clarifications you need, we are open to clarify. Thank you.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Anshuman Atri from Premji Invest. Please go ahead.

Anshuman Atri: Thank you for the opportunity and congratulation on performance. So my question is regarding the incremental capex on value addition and cost saving. So what is the potential improvement in total EBITDA possible because of this realization improvement and cost saving can be expected?

M.V.S. Seshagiri Rao: So for instance, overall, we can say that 6.7 million tonne of incremental capacity, which will get commissioned by March 31, 2020. If we say that adjusted EBITDA after taking into account the incentive for the previous quarters or previous years is around Rs.11,100 per tonne multiplied by this 85% to 90% capacity utilization, that is a kind of incremental EBITDA, which could come in from volume growth itself. Second is product mix change. Product mix change is a 3.3 million tonne of incremental capacity, which we are creating in the downstream. So if I look at the average EBITDA incrementally, the downstream is around Rs.3000 per tonne. So that is the kind of incremental EBITDA, which can come in on account of this 3.3 million tonnes. Over and above 3.3 million tonnes, some more changes are happening in the product mix. One change is tin plate. Tin plate, 0.5 million tonnes is coming in. So in the tin plate, the EBITDA margin is more than Rs.3000. So incrementally, that would come in on the 0.5 million. At color coated, we are increasing the capacity from 0.7 million to 1.6 million, a 0.9 million tonne of incremental color coated. So color coated, the EBITDA margin is more than Rs.3000 for 0.9 million tonnes incrementally it will come in. So this is what is going to accrue on the downstream capacity. If I look at cost saving, there we are commissioning 1.5 million tonne of coke plant at

Dolvi. Today, we are buying the coke. Captive coke will be available fully from the second half of this financial year, partly in the first half, maybe in the second quarter and fully from the second half of this financial year. So 1.5 million tonnes bought-out coke and the capital coke difference in the cost that will accrue to the company in this year itself and fully in the year FY2020. Pipe conveyor, again, which we explained last time, that will get commissioned in July to August of this year. So transportation cost will come down on account of pipe conveyor. I will not be able to give you one number on account of this, but there will be a substantial accretion to the EBITDA margins on account of cost-saving initiatives the company has taken. The mining side, we are spending Rs.700 Crores. This is seen on the mines in Vijayanagar and also the Jharkhand coking coal mine, both will get commissioned fully by March 31, 2020. So this will also contribute to the EBITDA margin from the mining capital expenditure. So therefore, there is an upside to the current EBITDA, assuming that the raw material prices and the steel prices will remain at the same level. These incremental margins, which will come in, will improve our margins further.

Anshuman Atri: Okay, Sir, secondly, on the imports, we are seeing high increase of color coated products. So is government taking any action regarding this?

M.V.S. Seshagiri Rao: Government has already put in BIS quality standards on the color, but that is not in our view effectively implemented. So we have taken up with the government to implement this better at the ground level. Hopefully, they will implement and it will moderate this color coated. You want to add, Jayant?

Anshuman Atri: Thank you Sir.

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

Amit Dixit: Thanks for taking my question and congrats for impressive set of numbers. I have couple of questions. One is regarding the iron ore mines. So can you, I mean, give a time line that when these mines will be kind of operational? I know a couple of them are operational now, but regarding the material that you will get. And secondly, what material will it substitute? Will it substitute NMDC material or material that you get from Odisha? That is on mining side, iron ore mining. And the second question is on the capex plan, of course, we are planning for a big bang capacity expansion. So what kind of comfort are we getting on demand side in India, I mean, at the grass root level?

M.V.S. Seshagiri Rao: Okay. Good evening. Regarding the mines in Karnataka, we bought five mines in auction of the C category mine. Out of that one mine is in operation last two months and one mine is about to be in operation within next one-month's time. Another three mines, we are getting first stage clearances from MoEF, and we are hopeful by second H2, we will be in position to start balance three mines also. Altogether, five mines will give us 4.3 million and that will help us to actually stop buying from Odisha or imported material.

Amit Dixit: That is helpful. Thank you.

M.V.S. Seshagiri Rao: With regards to the second question.

Jayant Acharya: Yes, on the demand side, I think, on the ground, we are seeing a lot of activity. That is why the demand, if you see JPC numbers, over 7.9% growth in this last year. And we are seeing that driven by good improvement in manufacturing, especially to talk about automobiles, appliances, which have seen robust growth. We are seeing pipeline projects coming up in water pipelines and oil and gas both, incrementally substantial quantities are likely to kick in this year. We are seeing demand drivers from the construction, infrastructure space with respect to bridges; lift irrigation, metros, highways and commercial buildings and stores. That itself is going to be a lot of TMT consumption, which has been actually very key driver of the change in volume and prices in the last quarter. Then you are seeing good demand on the coated and color-coated side based on the appliances, the solar capacity increases, which are being planned. So in addition to that, we are seeing a little bit of improvement as we see from the loan side also from banks, rural housing pickup, the agri allocation of funds towards the budget is seeing initial stages of pickup. So I think the general fundamental demand in the country looks good.

Amit Dixit: All the best.

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

Pinakin Parekh: Sir, my first question is on the capex plan that has been announced, roughly Rs.45,000 Crores of spending over the next three years. Does this mean that we would stay out of M&A for the time being given we have a large slew of projects that we will execute or is acquisition something which can proceed parallelly if the opportunity comes through?

M.V.S. Seshagiri Rao: If we see the debt to EBITDA at the end of March 31, 2018 was 2.57x, while debt-to-equity is 1.38x. What we have been guiding you for the last two years, we wanted to be within 3.75x debt to EBITDA and debt to equity at 1.75. So there is enough headroom that is available to maintain these ratios at these levels and continue to grow, not only to complete this capex but also look at any opportunities that may come in IBC or any such opportunities. Second point is, last year, when we incurred Rs.4,690 Crores of this total capex, out of that, that debt was funded is only Rs.1,600 Crores in that. Balance we met out of cash accruals, so not only meeting over Rs.3,000 Crores of capex in the last year, we reduced our debt by Rs.3,500 Crores. That means that Rs.14,800 Crore EBITDA level, we were able to earmark either for repayment of the debt or incurring capex over Rs.6,000 to Rs.6,500 Crores. If that is the kind of ability with that EBITDA of Rs.14,800 Crores where we are guiding you for 2.5% increase in sales, and there is a change in the volume mix. There are certain Rs.3,000 Crores of capex programs or cost savings, which are getting commissioned in this year, and the steel demand is really robust if that is the guidance, which we are giving. So therefore, with the cash generation that would come in, we will be able to meet significant portion of the capex even in the current financial year out of our internal cash generation. So out of this Rs.45,000 Crores, which we have talked about, Rs.4,690 Crores is already spent. So the balance capex, Rs.10,000 Crores we have earmarked for FY2019. What we are planning to do for this Rs.10,000 Crores, raise Rs.7,000 Crores of debt and Rs.3,000 Crores on the cash equivalent. So that is how we have phased out this expenditure. So we have enough headroom while we are meeting this incremental amount of typical cash equivalents or by meeting within the parameters, which I just explained to you. So there is no issue with regard to funding the capex or at any further opportunity.

Pinakin Parekh: Understood. And Sir, just to carry forward this question further, recently, there were some announcements for capital spending in the U.S. Now sir, over the next three years, what kind of capital expenditure are we planning to incur in the U.S. operations of JSW, which could be over and above, the announced projects in this three year capex plan?

M.V.S. Seshagiri Rao: So in the U.S., so we have already informed that there will be a $500 million total capex program in the Plate and Pipe mill. Out of that $500 million, $150 million is roughly by equity and $350 million will be debt funded without recourse with JSW Steel India. We will raise at least $150 million of that over again over a period of two years time.

Pinakin Parekh: Understood. And Sir, lastly on the Monnet thing, whenever the NCLT approves - we do not know when it would. In your view Sir, how much time would it take for the company to essentially get those operations fully ramped up and online? Is it a multiquarter process? Or do you think it is a multimonth process?

M.V.S. Seshagiri Rao: So we have got already CCI clearance, and the implementation of the plan, I do not think it will take a very long time from the date of NCLT clearance.

Pinakin Parekh: Understood.

M.V.S. Seshagiri Rao: Operationalizing the planned capex to full capacity will take time, but starting the operation to the extent of TMT is 0.5 million tonnes. That would not take time. It will be maybe three to four months time, but the ramp up to capacity will take some time.

Pinakin Parekh: Thank you very much for this.

Moderator: Thank you. The next question is from the line of Prateek Singh from Credit Suisse. Please go ahead.

Prateek Singh: Congrats for a good set of numbers. Just wanted to get an idea of the pricing environment of coking coal, so if you can give me the purchase and consumption costs for Q3 and Q4 both, how it has moved?

Jayant Acharya: Yes, the coking coal price in Q3 was - blended was $187. It has moved to $205 in Q4.

Prateek Singh: Understood and this is the consumption cost or purchase cost?

Jayant Acharya: This is based on CFR consumption.

Prateek Singh: Understood Sir. And regarding this GST incentive, Sir, going ahead, how should we look at it? So this the number that we got for this quarter, specifically, is that something which we can build in going ahead also every quarter?

M.V.S. Seshagiri Rao: So for instance, whatever incentives are there which belongs to the previous year, it is only Rs.108 Crores. Balance belongs to the last financial year. As quarter is concerned, Rs.108 Crores plus Rs.259 Crores, so another 300 Crores is excluded from this quarter.

Prateek Singh: That is it Sir.

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

Bhavin Chheda: Good evening Sir. Good set of numbers. Sir, just to clarify on this GST refund, so on a run-rate basis, this would be now around Rs.110 Crores plus/minus depending on the volumes, right, per quarter?

M.V.S. Seshagiri Rao: No, here, I think the way it has to be looked at is the net present value, whatever amount would come in has to be paid back to the government at the end of 15 years. So whatever amount is there, you have to calculate the net present value and difference between amount collected and the net present value will come as a benefit to the P&L. Balance will come as a loan refundable to the government, and every year at the previous discounting rate, interest will be charged.

Bhavin Chheda: Okay. I will understand that separately, I think it was confusing a bit. Next question, on the U.S. capex, I missed on $500 million you said would be spent over what period and what exactly what we are doing at the U.S. Plate and Pipe Mill, and if we can get some guidance there for FY2019 and 2020.

M.V.S. Seshagiri Rao: Yes, sure. Total of $500 million is divided into three phases. In the Phase 1 is the $70 million, another $80 million in Phase 2, $350 million in Phase 3. This is how we are doing it. So Phase 1, once we complete, it is already ongoing $70 million capex, their yields will improve. We expect an improvement of $50 per tonne in the margins. Another $80 million will be spending to modernizing existing Plate and Pipe Mill. So first $70 million and second $80 million, Phase 1 and Phase 2 for modernization of the existing Plate and Pipe mill. $350 million for backward integration because Section 232 has already come in and we wanted to put backward integration thereby the benefit of melt and manufacture policy to submit bids in the government tender is essential to do backward integration. So we wanted to spend $350 million and create an electric arc furnace and slab caster facility. So this is the Phase 3. Phase 3 is subject to environmental clearance, which we already applied for environmental clearance to hold a backward integration. And last point, on the important benefit, we can improve to JSW Steel India is that we approach the Department of Commerce U.S.A. that the slab will be allowed to be supplied without affecting to Section 232 because we are doing backward integration for two years time until backward integration is complete. We have received a positive consideration subject to we are able to show a firm tie up of $350 million. So we are in the process of tieing up. Once we do that, we will be able to even supply slabs from India without subjecting it to Section 232 additional duty credit.

Bhavin Chheda: Sure, Sir. And Sir, other question is on the pipe conveyor. What exactly is the capacity of a pipe conveyor, when we are starting and how much time it would take to ramp up?

Dr. Vinod Nowal: This pipe conveyor is going to be ready by, say, September, and we will start operations from conveyor from October 1, 2018, you can say. And downhill conveyor work is also there, which is going to fit to this conveyor. That will also and take another six months time. So this will be operational from October 1, 2018.

Bhavin Chheda: And capacity of that, to handle iron ore?

Dr. Vinod Nowal: Capacity of this is 20 million tonne per annum.

Bhavin Chheda: Okay. And this would handle an inward iron ore movement in Karnataka or whatever you import as well as get it from Odisha?

Dr. Vinod Nowal: It is there in mines area. So we have a yard there. So they will source into yard, and from there, it will come to our plant. And afterward, this will be connecting to proposed mines, which is for us as well as others, then it will get connected to full integrated conveyor belt.

Bhavin Chheda: Thank you Sir.

Moderator: Thank you. The next question comes from the line of Sumangal Nevatia from Macquarie Group. Please go ahead.

Sumangal Nevatia: Thanks for the chance. Sir, first question is with respect to volumes FY2019 you have guided, but just to look from a two to three year perspective, is it right to assume that FY2020 would be closer to flat volumes and then a big jump in FY2021-2022?

M.V.S. Seshagiri Rao: Yes, that is correct.

Sumangal Nevatia: All right. Sir, in terms of steel prices, if you could just share what are the current trends in April and May versus 4Q average steel prices both for long and flat?

Jayant Acharya: So just to take you back, in Q3 to Q4, we have seen the prices going up. The long product prices have moved up more than the flat product prices. Internationally, I would say, the flat product steel prices have moved somewhere on an average of about $50-odd in hot rolled coils. In long products, the domestic because that is of more relevance, let us say, for example, in bars have moved by almost Rs.7000 to Rs.8000 per tonne in terms of December to March on point-to-point basis. If you look at Q1, that is in April and May, we have seen a marginal movement up in April and May each month between 1% and 2% maybe depending on the product, primarily on account of, I would say, depreciation of the rupee, which is impacting the inflow as well as the cost of raw material coming in. Going forward, I feel that the prices will remain range bound in this quarter based on our fundamental improvement in demand, which we see.

Sumangal Nevatia: Okay. So 1% to 2% from exit, so maybe from Q4 average level, it will be closer to 3% to 4% higher. Is that a correct understanding?

Jayant Acharya: You can calculate that. I will not be able to give you offhand. But it is one, you assume, let us say, 1% to 2% in – we are talking about each month, so that is April 1% to 2%, and May 1% to 2%. Based on that, you can calculate the exit price.

Sumangal Nevatia: Thanks and all the best.

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

Abhijit Mitra: Thanks for taking my question. I am just trying to understand the timing of the announcement as well as the news that new capex announcement serves. If I see almost 70% is on account of backward integration project and 30% is effectively what is adding to the new capacity, both upstream and downstream. So how to look at it, as in is - I mean, are the optionalities on organic as well as inorganic really low? And how should one read into this almost Rs.12,000 Crores being spent on pellet plants and coke oven site now. For somewhere, the cycle is between middle to the peak. So if you can help understand the decisions that have gone behind the capex announcement, it would be great.

M.V.S. Seshagiri Rao: As I explained in the beginning itself that there is a good rebound of steel demand which is expected to continue in future in India and also globally. Back in the outlook, first Vijayanagar is concerned, we were talking about shutdown of BF-2 once BF-3 ramping up happens. As it makes sense in the current environment where the EBITDA per tonne is Rs.11,000 in flat, to shut down a 1 million tonne capacity, or commit the capex and then use that opportunity to improve the EBITDA further. So we find it compelling to commit this capex right now and to finish it before March 31, 2020, to expand capacity by a million tonnes. Actually, we have taken that call. The second backward integration, again, at Vijayanagar, we had a coke oven, very old plant. It is non-recovery type coke oven plant. It has a capacity of 0.8 million tonnes, very expensive relative to the coke oven 3 and 4, that is coming for relining. When it comes for relining, instead of improving that coke oven 1 and 2, if we can set out the recovery type coke oven, we will be able to use the assets. We will be able to reduce the cost of coke #3 is whatever shortfall is there in the coke for Vijayanagar, we will be able to get from this coke oven plant. Again, it is compelling for us to go ahead and announce this capex for coke oven. Similarly pellet plant today, when we say we are expanding to 13 million tonnes at Vijayanagar and we need more lumps. Our lump proportion in the total iron oxide mix is going above 20%. If it is above 20%, sourcing lump has become a bit of a challenge in Karnataka. So if we put up pellet plant, it not only improves productivity, we will be able to reduce our dependency on the lump. Therefore, it is making nominally immediate sense to commit our pellet plant. That is why we committed this capital at Vijayanagar to the set of pellet plant, set of coke oven battery and complete the Vijayanagar up to 13 million tonne.

So coming back to Dolvi, now we have an excess capacity in the SMS facility there, whereas at Salav for now, DRI can be expanded capacity from existing 0.9 million to 1.6 million tonnes. So when this DRI is available, then it is possible for us to use that and then increase the capacity by 0.7 million tonne at Dolvi, which a very low cost investment. So we are committing to that project. So every project has a rational. That is why if you see JSW Steel, our return on capital employed, we are #6 in the world. Our return on capital employed for March 31, 2018, is over 16%. It will further improve going forward. So we are very, very cautious in allocating the capital. Whatever projects we are taking up here, all these projects will improve our return on capital employed will improve our EBITDA margin, will improve our product mix. It will make us much, much stronger. Secondly, if you compare with inorganic growth opportunities in India, it is definitely more expensive relative to what we are doing. If that is happening today, tomorrow it is happening, then you can pay for the time, whereas, the way we are understanding today, almost all the cases are going through delays. So eventually, every case will land in Supreme Court. Right, it will take some time. So before that, we will able to complete this and show you the result and create value in the company.

Abhijit Mitra: Right. That is helpful. What I was also trying to understand that as far as the split of the capex is concerned, between capacity increase and backward integration, can or could it be more skewed towards capacity increase? I mean or have we exhausted all the options out there. That was perhaps what I kind of implied when I ask the question. Or if you can also help me understand that what are the levers of volume that you see as far as further increasing our existing plans are concerned?

M.V.S. Seshagiri Rao: Yes, this question to answer, with Vijayanagar, we have environmental clearance up to 16 MTPA. So we are going up to 13 MTPA. So there is further possibility of increase by 3 million tonnes quite quickly at Vijayanagar.

Abhijit Mitra: Subject to iron ore availability, I would presume, that was your initial...

M.V.S. Seshagiri Rao: That is a further possibility in terms of lever for volume growth through brownfield in the most inexpensive way.

Abhijit Mitra: Got it. Thanks. That is all from my side.

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

Indrajit Agarwal: Good evening. Two questions from my side. First on the other expenses side, why is there a sudden jump in other expenses this quarter vis-à-vis last quarter? And secondly, on U.S. Plate and Pipe mill, given the kind of recovery that we are seeing in that region, how has the order book moved over the last couple of quarters? And what is your expectation in the medium term for that?

M.V.S. Seshagiri Rao: As far as the U.S. is concerned, the capacity utilization has improved in the case of plate mill, so we expect it will pick up further, so that is looking far better than what it was. The other expenditure is concerned, there is a rupee hedging cost, which has rupee-dollar hedging cost, which has come in the other expenditure. That is one. Then, the second is we have stores and spares, there is some increased in their expenditures in the last quarter. The third area is, there are certain preferred shares, which have been subscribed by the company, in one of the companies, which have set up the townships. These preference shares are payable after some time. So it has to be accounted at net present value. So that amount has been accounted in other expenditure in loss of face value and the asset value difference. So these are the three items, which increases the other expenditure. One of the items is only the preference share accounting balance are normal.

Indrajit Agarwal: Thank you.

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

Ritesh Shah: Thanks for the opportunity. Sir, my first question is what is the rationale of adding DRI capacity, specifically looking at it from the perspective of blast versus DRI? And how do we address the gas over here? Or is it like coke oven and feed into it?

M.V.S. Seshagiri Rao: Today, even assuming we buy the gas in the market and increase the DRI capacity in Salav. We had proportion in the overall availability of hot metal. So in the CONARC we will be mixing the blast furnace and the DRI and hot metal. So that proportion will still remain ideal, number one. Number two is when we are expanding capacity at Salav. , we are also incorporating hot charging of DRI at Dolvi directly into CONARC furnace. So these two together will increase the productivity overall. So therefore, gas even though not available for additional capacity in Salav is making still sense rather than with overall costing that is one. So based on that, I think, we have taken a call to increase the capacity by 0.7 million tonnes. Overall, profitability and the return on capital employed is still quite attractive.

Ritesh Shah: Okay. Sir, my second question is on the product mix, like we seem to be quite positive on the demand side, but a lot of it is coming from the infra segment. The incremental capex what we are doing on the downstream, it is more towards the flat side. So how should we look at the mix and how do we address the incremental demand?

Jayant Acharya: So if you see when we are driving the capacity up now, we are doing about 6.7 million tonnes. That as you correctly said, is a primarily flat product. The demand, which is getting driven in this flat is automotive, which we said that is growing at a very healthy rate, appliances, appliance industry, solar. We are seeing even in the earthmoving equipment, the yellow goods, we have seen, as I said, water pipelines and oil and gas, which is again a big incremental demand which is coming in. And we are talking about growth in the capital good sector. So therefore, there are a lot of areas, I think, in the flat side, which have seen growth. On coated, as we said, in addition to the appliances and solar, which we have seen the roofing, right, because the agri and rural is picking up, the roofing side and the cladding side is improving. So the color-coated demand and the coated roofing demand is also improving. The air-conditioning, HVAC demand is also improving.

Ritesh Shah: Sir, where are those coming from as how do we look at the product mix, basically, would not, should not we tend more towards the long side to keep it balanced to cater to the country's needs. So is it more from an ROC perspective that you are looking at it that we need to be more on the flat side versus long, so I was just trying to understand it from that angle?

Jayant Acharya: So if you look at the long, we have seen the long past pattern of movement. We have seen the last few years has had very little growth on the infra side due to which the longs were suffering. And we had actually put a bar mill probably ahead of the growth curve, and that is why, for some time, it was underutilized. So we are currently having long capacity in excess of 5 million to 5.1 million tonnes, and now that the growth in the long infrastructure is likely to pick up, we are trying to see that these capacities are 100% utilized. Once the capacity utilization is fully seen, which we are sync which we are seeing round the corner, we will take measures in our new expansion to put that in place. Also, in our one million tonne expansion, which we are putting in Vijayanagar, for your information, that one million tonne is long product, which is wire rods, which is being added that entire capacity is going into long products. So 1.2 million approximately or one million tonne we will be putting up there.

Ritesh Shah: That helps. Mr. Rao Sir, one question for you at the start of the year, you had indicated cost savings from the digital side, logistics, and also, it was pipe conveyor was also there. Any update over here, I think, from the digital side we had indicated Rs.430 Crores, 40 projects identified. Sir, any commentary over here. Is it already there in the numbers or one should expect those going forward?

M.V.S. Seshagiri Rao: We have already taken it for implementation Rs.350 Crores worth of projects in FY2018 out of that Rs.172 Crores accrued last year. In this current financial year, we are targeting Rs.450 Crores from the savings from the digital initiators.

Ritesh Shah: Okay. Thanks.

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

Rajesh Lachhani: Thanks for the opportunity. My question is generally regarding you have spoken on the India demand, which you think has moved the corner and it is looking quite bright. But the significant capex, does it also mean that you're quite positive on the global supply-demand scenario as well?

Jayant Acharya: Yes, we are very positive about the global supply demand as well. If you see the general economic climate in the world, the growth is quite broad-based. The economic growth has been good, and the 2019 numbers projected, 2018 numbers projected by IMF looks good. We have seen good growth coming up from U.S., Europe. We have seen the Chinese demand and the domestic market growing much better than what was predicted earlier in the world steel forecast. Japan is growing well on the back of Olympics and budgetary support. And the discipline of China, especially by cutting capacities and lesser exports is further stabilizing the market. So yes, we are positive. We are seeing signs of investment, I think, coming back in some of the countries. After a long lull, capex is getting revived. As the capacity utilization nears 80%, I think, people start looking at capacity increases. So we are seeing signs of that in some of the countries as well.

Rajesh Lachhani: Understood Sir.

Moderator: Thank you. Ladies and gentlemen, that is the last question. I now hand the conference over to Mr. Ritesh Shah for his closing comments.

Ritesh Shah: Thanks Lisaan. Pritesh, any closing comments from your side?

M.V.S. Seshagiri Rao: We will work around achieving our guidance for this year and also bring savings from the backward integration projects and also ensure that whatever capex program we have given, we will implement. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, on behalf of Investec Capital Services that concludes today's conference. Thank you for joining us. You may now disconnect your lines. Thank you.