"JSW Steel Limited
Q1 FY2019 Earning Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the JSW Steel Q1 FY2019 Earning Conference Call hosted by Motilal Oswal Securities. 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Sanjay Jain from Motilal Oswal Securities. Thank you and over to you, Sir!

Sanjay Jain: Thank you. Good afternoon, everybody. On behalf of Motilal Oswal Securities, I welcome you to JSW Steel conference call. We are delighted to host the management for discussion in the first quarter results in the business outlook.

After opening remarks from the management, there will be a Q&A session. Now I had over the call to Mr. Pritesh Vinay, Vice President, Corporate Finance and Group Investor Relations. Pritesh!

Pritesh Vinay: Thank you, Sanjay. A very good evening to all the participants. On behalf of JSW Steel, we welcome you to the first quarter fiscal 2019 results earnings call. I am sure you have had a chance to go through the results, the press release, and the presentation, which has already been uploaded on the website.

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

I will hand over the floor to Mr. Acharya for opening remarks and post that we can move to the Q&A.

Jayant Acharya: Yes. So good evening, everybody. So the last quarter, I think, we have seen a positive global outlook. IMF reaffirmed its 2018 global growth forecast at 3.9% for the year, although they have outlined that the growth may be more uneven and there could be risks because of trade tension. This has translated into better growth prospects - basically what we have seen in U.S., the activity in Europe has also so far been positive. We have seen the buoyancy in the economy translating into better steel demand. And global steel demand if you recall in the last quarter, we had presented that World Steel Association predicted that the steel demand would grow by 1.8% in 2018, in which China demand was expected to be flat. In the first half of this year, the Chinese demand has gone up substantially. They have shown a growth of 8%. And India in this last 2 quarters, the Q4 of last year and quarter 1 of this year, has grown by about 8.7%. So if you look at these 2 numbers, basically doing much better than the earlier expectations. We see a positive upside risk to the world's demand growth in this year.

If you look at India, I think, Indian economy is doing well. We are seeing spend of the government in various infrastructure projects picking up. We are seeing gross fixed capital formation improving. We are seeing a strong consumer demand - the automotive; the vehicle production is doing well. Appliances production and demand both have gone up. On the rural demand side as well, I think we are seeing a positive growth. A good monsoon should further improve the rural demand in H2.

Having said that, I think the general positive growth momentum in the world and a stable raw material price has kept the steel prices in a range bound - kind of a range in this quarter ie last quarter. In India, we do expect inflationary pressures to pickup. We are seeing oil prices going up, the depreciation of the rupee having an impact. Liquidity conditions have become tight, and due to which there could be an impact on the rate cycle as we go along. So these are areas, which we need to watch.

The steel side, I think, in India, what we have seen is that while the demand in the quarter - last quarter - has been good at 9.2% and the production has gone up by 6.2%. But in the last quarter, India has become a net importer. We have seen a 15% increase in steel imports into India Y-o-Y. And quarter-on-quarter, the imports have gone up by 31%.

Exports in the last quarter have moderated by 16% to 1.85 million tonnes. And when we look at the exports from China, Japan and Korea to U.S. that has dropped by about 240,000 tonnes. And in the last quarter during the same period, we see a pickup in imports into India from China, Japan and Korea by almost 460,000 tonnes. So there is a linkage to the trade barriers, which have been put up in U.S. and diversion of that steel coming into India, which is a cause of concern. So while the Indian demand has been positive, we need to be watchful of the trade diversions, which could take place into India and therefore effective trade measures will have to be looked at.

Having said that, I think, the steel results from JSW Steel have been very good for the quarter. We have produced 4.11 million tonnes of crude steel, which is up by 5% Y-o-Y. Saleable steel sales for the standalone entity were at 3.83 million tonnes, which is up 9%. And revenues from operations at INR 18,964 Crores is up by 23%. The operating EBITDA at INR 4,822 crores is up by 119%. and the highest ever quarterly net profit at INR.2,338 Crores was reported in standalone.

On a consolidated basis, the saleable steel sales went up by 11% to 3.76 million tonnes during the quarter. The revenue from operations rose to INR.20,519 Crores, which was up by 25%. The operating EBITDA at INR 5,105 Crores is up by 95% and net profit after tax at Rs.2,339 Crores was up by 275%. If you look at the growth numbers of 11% on a consolidated basis, the ratio of sales domestic to exports was 88% domestic and 12% exports. Our sales into domestic market went up by 27% YoY. Our value-added and special products sales grew by 6% Y-o-Y and accounted for 55% of the overall sales. Sales to automotive sector went up by 57%, while the automotive production grew only by 17%. Our numbers in terms of automotive sales have been very positive. Our sales to appliances have grown by more than 100% Y-o-Y. So we are seeing a strong consumer demand playing out in the consumer durable and the automotive space.

On the subsidiaries performance, I think, JSW Coated Products during the year have registered a production of 0.43 million tonnes and a sale of 0.43 million tonnes. The operating EBITDA has been at Rs.122 Crores for the quarter. Net profit stood at Rs.42 Crores. The U.S. Plate and Pipe Mill has improved the capacity utilization and it produced 80,777 tonnes of -- net tonnes of plates and 14,021 net tonnes of pipes, reporting a capacity utilization of 35% and 10% for the pipe mill. The EBITDA at US$10.69 million has seen a substantial improvement over the last quarters. On a consolidated basis, we have already given you the numbers.

The other positive is that the net gearing, the net debt-to-equity at a consolidated level has improved very much to 1.32x at the end of the quarter as against 1.38x at the end of Q4 and net debt-to-EBITDA at a consolidated level stands at 2.26x as against 2.57x at the end of last quarter.

The company's debt is also at a manageable level of Rs.39,090 Crores. The net debt increased by Rs.1,070 Crores, primarily because of depreciation of the rupee, which accounted for Rs.865 Crores out of this Rs.1,070 Crores increase in debt.

On our acquisition side, the resolution plan we submitted for Monnet Ispat and Energy has been approved, with modifications by the Mumbai bench of the NCLT and the written order is awaited. The acquisition of Aferpi in Italy, erstwhile Lucchini has been completed, and now we have the shares -- 100% of the shares transferred to us for Aferpi and Piombino Logistics and 69.27% shares for GSI Lucchini.

On Acero Holding Junctions, we have already completed the acquisition of 100% shareholding in Acero Junction, Ohio. And the work of starting the electric arc furnace has commenced and we expect to start the operations by October. In Italy, we have 1.3 million tonne rolling facility and we expect the rolling mills to start in phases in the next quarter.

On the projects and capex update, I think, all the key projects are on track and in Dolvi and the expansion of capacity at Vijayanagar including the ramp-up of CRM complex and the modernization and enhancement of capacity at our JSW Steel Coated.

Our outlook continues to be constructive. For the coming year, we see a stable economic growth, except for one of the reasons, which may come. We do not see a slow growth potential this year. The concern on trade tensions emanating out of U.S. and consequently retaliatory measures by others needs to be watched. Chinese production is strong. While Chinese exports have gone up in the month of May, we are watching the export trend as we go forward. But the good thing is that China's domestic demand has been quite stable and has been positive.

So with this, we will open for questions from you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We will take the first question from the line of Sumangal Nevatia from Macquarie. Please go ahead.

Sumangal Nevatia: Good evening and thanks and congratulation on the strong quarter. First question is, with respect to iron ore cost, the presentation says it is up almost 14% Y-o-Y. Some part has been due to change in sourcing mix and we also read about some dispute between us and NMDC. Is it possible to elaborate what exactly is the issue and our stand and the second part of the same question would be the pipe conveyor at Vijayanagar is about to commission in the next 2 to 3 months. So, how will cost and sourcing change for Karnataka requirement?

Jayant Acharya: So our iron ore cost on a quarterly basis has moved up, yes, that is correct, on a Q-o-Q basis, but we will give the flavor of the detail to you, but it has not moved up to the extent of 14%; 14%, you may be saying with respect to Y-o-Y. On the purchase sourcing of iron ore, I do not see that we have per se any issue, we are purchasing from NMDC as well. In addition to that we are importing iron ore from outside, which have a better productive utilization in terms of value and use. The alumina levels and the slag levels, this is for iron control, so the value in use is better. We have also taken some higher grades from Odisha to balance the lower grades in Karnataka, and that is basically to reduce the cost of fuel, because when the coal prices go up the fuel cost essentially also goes up, so if you are using better iron ore quality and the blend is better, then the cost of fuel also is better in control. As far as the pipe conveyor is concerned, I request Mr. Nowal, who will -- to give us some more details on this.

Vinod Nowal: This pipe conveyor work is in advanced stage, and we are very much hopeful by September or maximum October, we will commission movement of the iron ore through the pipe conveyor. And as on today our cost of our freight cost is around Rs.450 to Rs.500 per tonne that is going to be through pipe conveyor less than Rs.100.

Sumangal Nevatia: How much volume do we plan to - what mix from Karnataka domestic within the state and from Odisha or imports?

Vinod Nowal: Like Supreme Court has allowed to do the mining in Karnataka, 35 million. But so far, it looks like that in Karnataka it is going to be around 29 million to 30 million only this year. So our requirement is around 3 million to 4 million, which we have to source from out of Karnataka. Once it is a level of the 35 million, then definitely we will take the call.

Sumangal Nevatia: Understand. Second question is with respect to NSR. In this quarter, it is up almost 3,500 Q-o-Q. So just wanted to understand is there anything specific to JSW contract in these NSR? Or it is a broad representation of the industry prices in the quarter? And the second part is, the prices are coming off, but of course, we have exited the quarter on a high base. So if you could just share how the July prices versus 1Q average?

Jayant Acharya: Yes. So on the NSR, the NSR has gone up in line with the prices internationally. So if you were to compare April, June of last year to April, June now, international prices have moved up and Indian prices have also moved up though probably at a lesser pace than what the international prices have. The second thing, which came in, in the quarter was the quarterly prices, which were readjusted in April-June. We also had a better mix of automotive and appliances. And we had a better domestic mix as well. So, therefore, the positive on the price increase, the blend with respect to the automotive appliances, value-added and specials giving additional benefit. The prices going forward, I think, in this month of July, seasonally we do expect some kind of moderation, especially in the long product side, which has only happened in the secondary markets where because of lack of activity in construction, there is some moderation of prices in rebars, which decreased. But it has happened so far in rebars and structures in which we are not present, but rebar, some moderation has taken place in June and July. As far as flat steel is concerned, the prices have been by and large stable. And we think the prices will be moving in a range bound manner. We do not see any kind of sharp deviation in the prices. It would be range bound.

Sumangal Nevatia: I understand. Thanks and all the best.

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

Indrajeet Agarwal: Thank you for the opportunity Sir and congratulations on a strong set of numbers. Sir, my first question is on the sales volume you console sales volume is lower than standalone, can you throw some light on that if it is US or domestic coated product business in that way have high inventory?

Jayant Acharya: Yes. So there were 2 reasons, if you were to compare on a Y-o-Y basis. One is that in the coated there was an impact of inventory increase, which took place in this quarter. The other one was that last quarter, we had a little bit of the conversion from Uttam as well into sales, which in this quarter has not been there. Coated has lagged behind a little, one, because of the imports, which went up sharply, we had pointed this out in last quarter as well. And in this quarter also, the coated imports into the country continue to be a matter of concern. And the other one is the lead lag impact between the price increase on hot rolled versus the price increase playing out in the coated products, which takes typically always a little time to follow. There was some inventory buildup. The major loss in coated in terms of volume has been while some quantity in exports, but we have also moderated some quantity in domestic, but we have also moderated our exports.

Indrajeet Agarwal: Sir that makes sense. Thank you so much. Second question is on overseas acquisitions and some new source that you have mentioned that our target is 10 million tonne, so is that just downstream or a combination of downstream and upstream?

Jayant Acharya: When we are talking about the steel making facilities, crude steel production, we are looking between 8 million and 10 million tonne overseas over the medium to long term. Our idea is that in U.S., where we have recently acquired the facility in Ohio, we would be investing into that to start the first electric arc furnace and get that operational, which would be about 1.5 million tonnes. The caster and the hot strip mill is already 3 million tonnes. The second electric arc furnace of 1.5 million tonne we will take up in Phase 2. So this will be a 3-million-tonne integrated facility in Ohio. In addition to that, we have already announced, as you are aware, the Baytown expansion, backward integration of 1 million tonnes to make 1 million integrated facility for plate and pipe. So we would have a 4 million-tonne kind of a possibility in U.S. In addition to that, we have looked at the acquisition at Italy. We currently have 1.3 million tonnes of rolling mills in Lucchini at Piombino. In Phase 1, we would be operating the rolling mills, which will be rail bars and wire rods. In Phase 2, we are looking at the option of setting up a hot strip mill of a 3 million-tonne. So the total capacity in Lucchini would be up to 3-4 million tonnes of this thing, which would be the 3 million tonnes of facility would be looked at only after due consideration to the current supply-demand and the environment and other factors, which we will need to study. So these 2 facilities put together will account for about 8 million. International acquisitions, in case there is any, which come up, we would look it as long as it makes economic sense. So, therefore, the range of 8 million to 10 million is this strong crude steel point of view.

Indrajeet Agarwal: Thanks Sir and if I can squeeze in one more, can you tell me how is the capex spend for this quarter?

Jayant Acharya: 2000 Crores in this quarter.

Indrajeet Agarwal: Thank you Sir. That is all from my side.

Moderator: Thank you. We will take the next question from the line of Anuj Singla from Bank of America. Please go ahead.

Anuj Singla: Thank you very much for the opportunity Sir. First question relates to the new accounting standard Ind-AS 115, as of my understanding of whatever has been given in the press release it should be EBITDA neutral; however, for the fourth quarter of FY2018 for the March quarter, EBITDA tends to rise by around 360 Crores on the standalone, can you just help me, give some colour on that?

Rajeev Pai: Last year, Q4 we had certain incentives, which were approved in the quarter four and that is the result you are seeing that increase in quarter four.

Anuj Singla: Sir, but these incentives are pertaining to GST, which has been mentioned in the press release, so is it a some notification, which has come out recently, which was not there in quarter four is that what it relates to?

Rajeev Pai: The incentives which were accruing earlier as well per the prior approvals, the GST has been announced and incentives as per the SGST rates and on filing the relevant claims we have decided to accrue those incentives in our plant.

Anuj Singla: Going forward is there a quarterly run rate what kind of incentive we should be expecting, is there a may be in percentage terms or something just to get the broad idea, what kind of incentive we should be expecting in the coming year?

Rajeev Pai: Incentive what was taken as one off item in quarter four, our current quarter is more or less same and regular run rates we will continue.

Anuj Singla: Understood Sir and secondly like Mr. Acharya mentioned the flat prices are more or less stable while we have seen some weakness in the long product prices; however, we have also seen significant weakness in the coking coal prices, so will it be fair to assume that given the exit run rate what we have seen for the realizations for the last quarter and the decline in the raw material cost, we could see this kind of profitability continuing in this quarter is that a fair assessment?

Jayant Acharya: I think it will be difficult to say some kind of a guidance in the profitability, but I think from the coal side what you have raised is that while the coal prices on FOB basis have gone down to some extent over the last quarter, but the result of that we will probably play out in the next quarter because 60 days of stock either in transit or plant is always there, so July - September we expect our coking coal prices will be by and large flattish with respect to what it was last quarter. The benefits of the lower prices of coking coal will play out in October, December most of it.

Anuj Singla: Sir, lastly if you can just give an idea what kind of blended price increase in percentage terms or in INR terms was there on a Q-o-Q basis. Because of the change in methodology, I am finding a bit difficult to calculate, so if you can just guide on that, that will be great, thank you?

Jayant Acharya: On Q-o-Quarter basis 6% increase.

Anuj Singla: Thank you very much Sir.

Moderator: Thank you. We take the next question from the line of Amit Dixit from Edelweiss. Please go ahead.

Amit Dixit: Thanks for the opportunity Sir and congratulations for a good set of numbers. First question is with respect to the ramp up plans for Monnet part and Aferpi if you can throw some light on that - I mean what kind of volumes you are targeting and what kind of profitability can we expect from these two assets?

Jayant Acharya: With respect to Monnet, we are awaiting the written order from NCLT and post that we will be able to comment how soon we can ramp up the capacity. As far as the Italian asset is concerned, as I just said that we would be looking to restart some of the mills in phases in this quarter and we would be supplying the billets into Italy from India and other markets and start the business.

Amit Dixit: Sir, if I am not mistaken it is a rail mill and so what kind of margin are you seeing currently over there?

Jayant Acharya: It is a little early because the rail mill as you are aware, our plant in Salem is approved, so there is already some consignments, which are going to Lucchini for the rail mill. These are for the Italian rail and Swiss rails, which are to be supplied, but the Italian rail contract again the tender is coming up for basically quoting again for the next period, so we will be participating in that and so therefore the prices in that we would not be able to give you any kind of visibility now and therefore would not be able to comment on the margin because rail is a tender based business. As far as bars and wire rods is concerned we would be aiming to develop the market of bars and specialty steel and part of the wire rods as well in specialty steel, so we will have to get our go to market strategy in place because the mill has not updated for a long while and therefore the credibility will have to be established again, so we will have to ensure stable sources of supply, we will have to develop the customer and then restart special grades in bars and wire rods both, but we expect that possibility to be good because Lucchini has a decent brand name in Italy as well as in Europe, so we expect to be able to again get back to the market soon.

Amit Dixit: The second question is the bookkeeping question, what is the coking coal cost that went into the P&L and the level of acceptances in this quarter?

Jayant Acharya: We had a coking coal blend cost of $205, which was similar to what we had in the last quarter CFR basis and we expect this to be flattish for this quarter.

Amit Dixit: And the level of acceptances?

Rajeev Pai: Acceptances for raw material is at US$ 1,420 million as on June end.

Amit Dixit: Thank you and good luck Sir.

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

Pinakin Parekh: Sir, thank you very much. I just wanted to understand that regarding the iron ore cost that we have - going forward, do you expect to maintain the same import mix that we have seen recently? Or you think that the domestic sourcing should stabilize and hence iron ore cost can potentially reduce from current levels?

Jayant Acharya: As I mentioned earlier, when iron ore availability in Karnataka is improved from 29 million to say 34 - 35 million; second another 3 more mines our captive mines will be in operation, then definitely it will ease out. And in my opinion, in future, the prices have to be better from today.

Pinakin Parekh: Sure Sir, secondly if I look at the notes to accounts it seems that there was a 283 Crores grant income recognized in this quarter because the process of disbursing incentive is not notified and for March 2018 this amount was 821 Crores, so basically it implies a roughly 1100 Crores of recognized income is sitting in the books as receivables from the government - what is the timelines when you think that this notification would be issued because the longer it gets delayed the larger the potential cash payout from the government would have to be?

Rajeev Pai: The government definitely has come out with a notification confirming that earlier benefit, which was accrued to the industry, will continue. So I think, in principal government has already confirmed. What we are referring is a modality of taking refund through either an NPV route or through a refund route. So we expect this notification to come shortly and once that comes, this amount, which is crystallized, will start getting realized.

Pinakin Parekh: But as of now this entire amount, I do not know more than 1000 Crores essentially sits as something that the company needs to realize from the government either a refund or something else right?

Rajeev Pai: That is right.

Pinakin Parekh: Thank you Sir.

Moderator: Thank you. We take the next question from the line of Ashish Kejriwal from IDFC Securities. Please go ahead.

Ashish Kejriwal: Thank you. Sir, is it possible to quantify the blended steel realization on a quarter-on-quarter basis in absolute terms?

Jayant Acharya: We do not share the realization on absolute basis, but I think what we have shared is the EBITDA numbers and the quarter-on-quarter impact of the price increase or so, which was 6%.

Ashish Kejriwal: So, if I ask in our topline besides steel sales there are other items like, which we have changed in terms of shipping revenue and other things, so what could be that amount, which has included in topline?

Rajeev Pai: So, as a result of this accounting standard roughly around Rs 400 Crores will get realign through the turnover for the quarter.

Ashish Kejriwal: This is on shipping one and beside steel sales also we have some scrap sales or power sales and trade sales?

Rajeev Pai: They are more that on the same levels what I am referring is that the delta change which has happened in the quarter, which is around 400 Crores.

Ashish Kejriwal: Sir, secondly again this is related to your iron ore sourcing when you said that value in use is better by adopting imported iron ore, so is it possible to give a sense how much we are benefiting by importing iron ore and to what extent we will continue to do in going forward also because as of now also we are not taking much of iron ore fines from NMDC, so what is your sense on that and when can we start lifting material from NMDC the way we used to do earlier?

Vinod Nowal: The lifting from NMDC is our normal lifting and whatever value in use and the prices of imported ie outside the country as well as Odisha - there is a requirement and as per requirement we import and bring it and it depends on what parcels are coming and what prices it is coming and all, but we are lifting full quantity, which is available from NMDC.

Ashish Kejriwal: So in case of pricing is it better to source from NMDC currently or is it better to get imported iron and ore?

Vinod Nowal: No, first whatever is available in Karnataka we will take that first, after taking others actually because there many, many small industries are there they purchase. Whatever balance requirement is there that we have to source from out of country as well as from Odisha that is our system we have adopted.

Jayant Acharya: As Dr. Nowal also explained there is a gap between the total availability because the ramp up in Karnataka is still going on. So there is some quantity, which you need to get from outside Karnataka, which is whether it is Orissa, whether its import, we decide. Since you are anyway getting it from outside the state, outside the country, a better mix in terms of higher quality grade which gives you value in use advantage is always beneficial. So therefore, we have been adopting that as a policy. But the mix, as he said, can change a bit depending on how the prices move in the market.

Ashish Kejriwal: Yes, Sir, that is what I was trying to look at. The value in use, in a sense, which, if you can give that we are getting advantage by using more of imported Orissa ore rather than NMDC's ore in Karnataka?

Jayant Acharya: No, it is a bit difficult to generalize that. It will depend at a particular point of time for where is the consignment is coming from, what mix you're having in a particular month. So it will be difficult to put the value in use as a number across to you. But I think our point is, we were trying to look at higher FE, lower alumina and where in the mix we will be getting better value in use.

Ashish Kejriwal: Thank you.

Moderator: Thank you. We would take the next question from the line of Dhruv Consul from CRISIL Limited. Please go ahead.

Dhruv Consul: Good evening Sir. Thanks for giving me this opportunity. My question is regarding the European Union Trade barriers and the impact of it on JSW given the fact that JSW gets 20% to 25% of its revenue from exports and India's total exports to Europe is about 30% to 35% and that too primarily in the flat segment. So how do you see the impact of the restrictions on the revenues of JSW?

Jayant Acharya: You would have seen in our performance as well as in the guidance that we had plan to moderate our exports this year. So you will see that already playing out in Q1, where our exports ratio in terms of percentage has already gone down to 12%. Last year for the full year, it was 23%. So we are already moderating our exports from the end of last quarter in response to the various trade actions which have been taken. Having said that, I think, the safeguard barrier, which has come, you would be aware is basically quota-based kind of a thing where the last 3 years average has been taken into account for providing a quota. They have given a quota for 200 days. And during which if it crosses that quota then there would be 25% duty levied. The provisional duty will be applicable for 200 days post which the investigations during this time will take place and a permanent duty will be put in place. However, they have not given it country-wise or company-wise. So maybe we will have to see how the investigations go and it finally materializes. But I think it is good in the sense that the European safeguard methodology has given a sense of certainty to the market. The uncertainty, which was prevailing when the safeguard was not announced, has now been removed. A quota-based system has given a comfort to the customers who were importing that their normal imports would continue. So from that perspective, I see this move having provided better stability to the European markets. As far as our exports is concerned, just to reiterate, we have already moderated and we will be selectively doing our exports to various countries across the world.

Dhruv Consul: Thanks a lot Sir.

Moderator: Thank you. We take the next question from the line of Pallav Agarwal from Antique Stock Broking. Please go ahead.

Pallav Agarwal: Good evening. Sir, I had a question on the benefits that you are getting on the GST. So normally, the sales tax deferral schemes are for a period of, I guess, 10 to 15 years. So how many years do we have left at Dolvi and Vijayanagar for getting these benefits?

Rajeev Pai: So the pending period for our incentive periods is on a similar level to what you have mentioned, for different plants are different. So these are around 10 to 15 years period.

Pallav Agarwal: Okay. And so we have plants, which would still have a period of 10 years or some of them would be close to the expiry period right now?

Rajeev Pai: Yes. Now some of the plants where we the plants where we are already getting earlier, so they would be over like 3 to 5 years, but the new expansions which are happening, they will be over about 10 to 15 years.

Pallav Agarwal: And also, would we be getting these benefits from export sales? Or this was primarily on the sales in the domestic market from these units?

Rajeev Pai: So these are based on the investment and the SGST what we pay. But under GST, wherever there is an input GST and if the entity exports, to that extent of exports, you are entitled for a refund of SGST, which is already, paid.

Pallav Agarwal: Okay. Sir, just one more question on the coke. So how much of coke are we actually purchasing from the external market?

Jayant Acharya: So it is - in Vijayanagar, it is roughly in the vicinity of about 1 million tonnes to 1.2 million tonnes per year. In the case of Dolvi, we have just started the coke oven batteries, the new ones. So I think, there the coke purchase from outside would now decline and will be 0.

Pallav Agarwal: Sir, this would be from DCPL and Amba River Coke at Dolvi, I believe.

Jayant Acharya: Yes.

Pallav Agarwal: Thank you. That is it from my side.

Moderator: Thank you. We take the next question from the line of Abhishek Poddar from Kotak Securities. Please go ahead.

Abhishek Poddar: Thanks for taking my question Sir. Sir, just one question on Monnet Ispat. As per the reports, it says that the shareholding of the entity would be close to 75% of the company. Should we assume that the economic stake also will be 75%? Or the economic stake will be close to 100%?

Rajeev Pai: Currently, we are still awaiting the uploading of the judgment of NCLT. So once we see the fine print, we will be able to confirm what are the final changes if any and accordingly confirm it.

Abhishek Poddar: Sure Sir. Sir, the second question is regarding this is to Mr. Acharya. We have seen a sharp correction in the rebar prices in the last 2 to 3 months, while the difference between the flat and rebar has increased a lot. So other than the seasonal factors, do you think this is because of the capacity ramp up by the new player that is also leading to such pressure? And also between the flats and longs, how are you seeing the demand? And are there any signs of longs demand improving?

Jayant Acharya: Yes. So I think TMT, this time around, if you see, usually in a season like monsoon, the TMT prices are more depressed. But TMT, I think, the demand would be good because the infrastructure spend of the government has really gone up. If you look at the various projects - if you look at the metro projects, if you look at the Bharatmala project, if you look at these Ikea and mega stores, which are coming up, there 25 stores which are likely to come up, and each store consumes, let us say, 12,000 tonnes to 15,000 tonnes per store. So you will automatically generate 200,000 to 500,000 tonnes of TMT demand just from the IKEA mega stores. You are also looking at the Zuari bridge, you are looking at the coastal roads, renovation by airport, all these things, I think, in terms of infrastructure spend, which is panning out, would play out from October. So my sense is that from October onwards you will see TMT demand picking up. And therefore, the possibility of recovery of some of the prices, which has been lost in this period is good. So I am seeing a reasonably decent demand, there is not much of new capacity, which has come from up any of the primary mills. The secondary mills also by and large are operating at a better level because of the higher margins. And that is why the higher operating capacity, lower demand due to monsoon resulted in the current price change. And that with October onwards, demand picking up, I think, we will again see some improvement in prices and demand as well.

Abhishek Poddar: Okay. Sir, last one regarding the captive iron ore mines that have started production. What was the production this quarter? And how do you see the ramp up from here on?

Vinod Nowal: There are 2 mines, which are already in operation, is 0.7 million annualized, so we are going to total mine it and dispatch it. Another 3 mines, which are going to be in operation this financial year, around 3.5 million, and we are hopeful actually to start in the next 2 or 3 months' time. And this year financial year only, we will do the full production of that.

Abhishek Poddar: And Sir, on this costing, how lower would these mines would be compared to the mine that you are buying from external sources?

Vinod Nowal: Definitely, there will be saving of at least 20% to 30%.

Abhishek Poddar: Thanks a lot, Sir. Thank you.

Moderator: Thank you. We take the next question from the line of Pranav Tendulkar from Rare Enterprises. Please go ahead.

Pranav Tendulkar: Thanks a lot for the opportunity. I just wanted to ask, you seem to shift the capacity mix clearly towards foreign assets. And is the trade war that is going on is one of the factors which suggest that the long-term ROCE of your local plays will be higher than the past and that is why you are acquiring assets abroad?

Jayant Acharya: We have been looking at international assets not only from the time the trade issue started, before that itself. I think that has only got, I would say, accentuated in terms of the fact that it is supported by trade measures. So it is good to have facilities in those countries where these issues have come. So I think, we see a good opportunity as far as U.S. and Europe both are concerned. But having said that, I think what you need to see is that the cost of acquisition has been value accretive. So we have acquired these projects at a reasonable cost. And therefore, the chances of value accretion in those economies are good, irrespective of whether the trade barriers are in place or not.

Pranav Tendulkar: Right, right. So Sir, just a question from my side. What is the cost per tonne of coke and iron ore that you incurred this quarter? And what is the outlook for next quarter?

Jayant Acharya: So we have been giving the coal numbers. And our blended cost, in the last quarter, was $205 CFR basis for the coking coal into the coke ovens. As far as iron ore is concerned, we have different brands and different plants, it is difficult to give one number. But if there is any further detail you need, I think, Pritesh will be happy to help you.

Pranav Tendulkar: Thanks a lot.

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

Bhavin Chheda: Good evening Sir. Sir, in case of the conveyer belt which you said would start latest by October, how much time it would take to ramp it up to 20-million capacity?

Vinod Nowal: Maximum it will take, say, like 1 month time. Capacity of the conveyor belt is 20 - 22 million. So immediately, we will move all the material, whatever we are sourcing from that sector. So actually we will go for 10 - 12 million within 1-month time.

Bhavin Chheda: So you are saying in that sector currently you are sourcing 10 - 12 million. So you will be able to move roughly that amount of iron ore on an annual basis on that conveyor?

Vinod Nowal: We have plan actually to take total material, whatever in that sector, is there, but initially 1 month hopefully in one month we will go for 10 - 12 million.

Bhavin Chheda: So this would be almost Rs.300 to Rs.400 a tonne?

Vinod Nowal: Yes, definitely.

Bhavin Chheda: Sir, second question what would be the overseas capex figure in current fiscal and next year?

Jayant Acharya: The acquisitions have just been completed. So for the Ohio unit what we are doing right now is we are spending small amount on getting the electric arc furnace up and running, which would be in the vicinity of about US$50 million, which would go into getting the electric arc furnace up and some small spends to the other areas. As far as Lucchini is concerned, I think, we have just concluded the transaction yesterday and we are yet to get into the plant in full detail to understand what spend is required. But as of current, we envisage that we will be starting the mills only. So therefore we would be spending very small amount, if any required to basically refurbish the mills, which may have been closed for some time, so that we can restart production. We are not immediately embarking on the capex for the expansion until we put our feet on the ground and understand the dynamics of that market.

Bhavin Chheda: Thank you Sir.

Moderator: Thank you. We take the next question from the line of Pratik Singh from Credit Suisse. Please go ahead.

Pratik Singh: Congrats for good set of numbers Sir. Sir, on the iron ore auctions, any new auctions in the mines they are coming up which we might participate in? Also, if you can give me a ballpark mix of your iron ore currently, so how much we buy in Karnataka, how much in Orissa and how much are the imports?

Vinod Nowal: Regarding auction of the mines, 5 mines we got earlier out of 7 mines, which has come for auction. And again, now there are another 7 to 8 mines are going to be in auction in the next 3 to 6 months' time.

Pratik Singh: And their capacity would be for the seven to eight mines?

Vinod Nowal: Definitely, all the 7 to 8 mines roughly around 10 million yearly basis productions.

Pratik Singh: And regarding the iron ore mix, Sir?

Vinod Nowal: As I mentioned earlier, we are bringing around 3 million to 4 million. Whatever first available in Karnataka, we source it and balance we source from Orissa as well as out of country.

Pratik Singh: So, regarding sourcing from out of country given the widening discount of low grade iron ore versus the high grade globally, is it something that you are also looking at to maybe get low grade iron ore you know something which you think would be reliable?

Jayant Acharya: So when you get material from a distance you will have to look at the entire product basket not only the FE, you will have to look at the alumina, you will have to look at the silica and then see what make sense, but I think as we said that we are sourcing value accretive material, which would give us strength in terms of value in use.

Pratik Singh: Understood Sir. That is all from my side.

Moderator: Thank you. We take the next question from the line of Jing Nie from Amundi Asset Management. Please go ahead.

Jing Nie: May I ask about your funding plan, please? Like I remember JSW trying to come into the market last time and the price was not right. So I am just wondering when does JSW consider the time again?

Rajeev Pai: So as a policy we continue to look at international bond markets as a means to diversify our borrowing. As you are aware that currently the markets due to trade wars and the Fed hike is still not in a stabilized mode. We are watching the markets and definitely tread very carefully. As and when we see an opportunity, we will continue to access these markets because ours is not one off event, but we will continue to access international bond market as a means to diversify our borrowing base.

Jing Nie: Thank you.

Moderator: Thank you. We take the next question from the line of Bhaskar Basu from Jefferies. Please go ahead.

Bhaskar Basu: Good evening. Just a couple of questions. Firstly, if you could give some color around how you see Monnet ramping up and I mean, what kind of volumes are they are doing right now and how do you see that ramping up over the next few quarters or next 2 years?

Jayant Acharya: So, Monnet as we just mentioned that Monnet the written order from NCLT is awaited, so once we receive that we will be able to study and revert to you.

Bhaskar Basu: Okay. And secondly, a clarification on the conveyor issue. So you mentioned, 10 - 12 million tonnes initially. Is that what you expect once the conveyor ramps up? Or you think more volumes will be shipped after the conveyor ramps up?

Vinod Nowal: The capacity of conveyor belt is 20 million. And initially you have to divert all these routes and all and then we are thinking around 10-12 million, in the first one month we will do it. And then gradually we will divert all the supplies coming directly to the plant through conveyor belt.

Bhaskar Basu: So eventually say one year down how much do you?

Vinod Nowal: We are building some downhill conveyor also, directly mines to this conveyor belt. That is also in the construction now. So once all downhill conveyors will be ready then this will be loaded to 20 - 22 million. That will be in one-year time.

Jayant Acharya: So next year I think this 20 million may be not, but annualized basis will play out.

Bhaskar Basu: Okay. One more on the Ohio unit. So basically, I think my understanding was one of the main issues there was with the electricity tariff at that plant and that was being renegotiated. So any update on that?

Jayant Acharya: There in Ohio, the electricity tariffs or the support being provided have been discussed with the past owners as well. I think there are some concessional tariffs, which are being discussed on electricity. Those are under finalization. So once we have some more details, we will be able to share that with you. But yes, some support on the concessional electricity is under discussion.

Bhaskar Basu: Okay. And just my final question on the Italy unit, just a confusion there. My understanding it's all downstream units, but somewhere you mentioned that its primary I mean, part of that 8 million tonne, which you were talking about so?

Jayant Acharya: Yes. So it's a 1.3 million tonne rolling mill, which is without hot band there. And this will be sourced from India and other markets, and we would be operating the mills. As far as the primary, which I mentioned, was from a medium-term perspective - that we would look at the possibility of putting up a hot strip mill on a medium-term perspective, provided it makes economic sense. So we would be studying the market. We would be studying the economics in that area and then take a decision. But that's a medium-term view.

Bhaskar Basu: When you say hot strip mill, you basically starting from steel production the whole breadth?

Jayant Acharya: Correct. That will be a project, which will be integrated for 3 million tonnes. So we'll look at the possibility, we will evaluate it and then take a call.

Bhaskar Basu: Thank you. That is all from my side.

Moderator: Thank you. We take the next question from the line of Abhijeet Mitra from ICICI Securities. Please go ahead.

Abhijeet Mitra: Thanks for taking my question. So first, clarification is that post the commissioning of the conveyor, the cost of procurements from local producers will go down from Rs.500 to Rs.100 per tonne. Is my understanding right?

Vinod Nowal: So, this is basically freight is in our account. Yes, that was freight ie transportation cost which is borne by us today.

Abhijeet Mitra: So that will go down from Rs.500 to Rs.100 per tonne right?

Jayant Acharya: Less than Rs.100 per tonne.

Abhijeet Mitra: Less than INR 100 per tonne. Okay. And so just to understand on the import procurement mix, so the last quarter import procurement that you have done, it was largely 57-58 grade FE right? Is the understanding right?

Vinod Nowal: No, no, it is not correct. There are so many different things in that. Not straightaway, this is 57 - 58. There is very high LOI. So equivalent, it is 63%.

Abhijeet Mitra: And what would be the average alumina grade 2.5?

Vinod Nowal: Less than 2.

Abhijeet Mitra: And is there a penalty for silica also, which you are trying to get from the local producers or that not yet started?

Jayant Acharya: There are so many sources that will be very difficult because it will be source to source it will differ.

Vinod Nowal: Before the ban from the Supreme Court all these things were applicable of penalty in silica, alumina and FE, but now the Supreme Court ban in last seven to eight years things are different actually.

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

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

Rajesh L: Thanks for the opportunity. Sir, I basically wanted to understand our strategy or thoughts that have gone behind overseas acquisition and how should we look into it the future. So you have said 8 to 10 million tonne, but can this number increase further?

Jayant Acharya: I think, I have mentioned that that we have been looking at facilities internationally wherever the asset makes economic sense, where the capital cost is value accretive. And we are looking at markets where the growth in the domestic market is reasonably good and we are taking calls in those markets as of now. So that is why what you are seeing in terms of investment in U.S. is basically in a market, which is growing reasonably well now and is also supported by the recent trade measures. But in spite of that, I think it is a market, which consumes 100 million tonnes of steel. The second advantage in U.S. will be the melted and manufactured steel in America, which has certain advantages because you will be able to bid for projects, you will be able to participate and sell to customers who have projects for melt and manufactured in America steel. So the idea is to continue because we are not able to sell anything from here to America because of antidumping. So we will have one facility there in America to basically service customers who we have earlier been servicing. Similarly in Europe, I think the idea was that it is good to have assets in the international market where you are able to bring in value. And as long as the capital cost of acquisition is competitive, it will make sense to do that. So that is what we have done in Lucchini as well. And we plan to basically, as I said restart the rolling mills and make specialty products to start with it.

Rajesh L: Sir, so just to make myself more clear, so if there is economic sense going forward even after these acquisitions, we will keep on doing these acquisitions. Is that the thought?

Jayant Acharya: So we said 8 million tonnes is our visibility for possibility in these 2 locations, 4 million in U.S. and 4 million in Italy on the medium term. Any kind of other acquisitions if it comes, so it could be between 8 to 10 million is what the visibility we see as of now.

Rajesh L: Okay. So max we can go to 10 million as of now?

Jayant Acharya: We do not have any assets on our books right now, which are giving us any different visibility.

Rajesh L: Understood. That is from my side, Sir.

Moderator: Thank you. Next question is from the line of Sanjay Jain from Motilal Oswal Securities. Please go ahead.

Sanjay Jain: Yes. I mean, we have been talking value in use and we are seeing iron cost has gone up, coking coal cost is same. My question is if you take all these factors into account, I mean, I am not going into detail, but would you say that your raw material cost on a sequential quarter basis has gone up? Or it's almost the same if you account that benefit you would have arrived from lower consumption of coke or better productivity of furnace?

Jayant Acharya: Just hold up for one second, we are just checking. Yes, so the cost on Q-o-Q basis has gone up by about Rs.700 to Rs.800 per tonne.

Sanjay Jain: Raw material cost per tonne of steel?

Jayant Acharya: Per tonne of steel correct.

Sanjay Jain: Okay. Second question on overall expansion projects. We are expanding in Vijayanagar and Dolvi, both places. And there was a furnace rebuild in Vijayanagar. So are we going to see some volume boost from the Vijayanagar furnace in FY 2020? Or these benefits, we should only expect in FY 2021 and 2022?

Vinod Nowal: One furnace, the BF-3 we are going to take for shutdown for around, say, 100 days, at that time we will change the bigger shell actually, higher capacity more than - we add another 1 million in that, so that is going to happen in 2019 and 2020, financial year 2019.

Sanjay Jain: So, volume boost we should only expect in FY2020-FY2021?

Vinod Nowal: Yes, FY2019-FY2020.

Jayant Acharya: So basically the full annual play out will happen in the year FY2021, part of the increase may come in H2 of FY2019-2020.

Sanjay Jain: Thank you very much. Sir, you have any closing comments and then we can close the call.

Jayant Acharya: I think we would basically just like to reiterate that JSW Steel has had a good quarter in Q1. And the numbers with respect to both production and sales have been good. In terms of the guidance, which we had given, in terms of volume, we see that we would be more or less on track. Usually, in the first quarter, seasonally, there is always a slightly lesser run rate and it picks up as we go into the H2. So I think, we would stand to our guidance for this year. So thank you very much and that is the comment from our side. And if there is any further query, the investor relations team would be happy to address that. Thank you very much.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Motilal Oswal Securities we conclude this conference. Thank you all for joining us. You may now disconnect your lines now.