"JSW Steel Limited
Q1 FY2020 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the JSW Steel Q1 FY 2020 Earnings Conference Call hosted by Motilal Oswal Financial Services Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. Please note that this conference is being recorded. Please note that this conference is being recorded.

I now hand the conference over to Mr. Dhruv Muchhal from Motilal Oswal Financial Services Limited. Thank you, and over to you, Sir!

Dhruv Muchhal: Thanks, Raymond. Hello, everyone. On behalf of Motilal Oswal, I welcome you to the 1Q FY 2020 Earnings Call of JSW Steel. I will hand over the call to Pritesh Vinay, VP Corporate Finance and Group Investor Relations at JSW. Over to you, Pritesh!

Pritesh Vinay: Thank you very much, Dhruv. A very good evening to all the participants on behalf of JSW Steel. We have with us today the management team represented by Mr. Seshagiri Rao, the Joint Managing Director and group CFO; Dr. Vinod Nowal, the Deputy Managing Director; Mr. Jayant Acharya, Director, Commercial, Marketing and Corporate Strategy; and Mr. Rajeev Pai, the CFO.

I am sure you have had the chance to go through our earnings, the press release and the results presentation which are already uploaded on the website. We will start with a few minutes of opening remarks by Mr. Rao and then open the floor for Q&A.

With that, over to Mr. Rao!

MVS Seshagiri Rao: Good evening to everybody. You must have seen what is happening globally. There is a widespread global downturn starting from automotive to energy to manufacturing to construction. So in line with what is happening on the ground, IMF has downgraded the global growth to 3.2%. Only 2 positives in response to this global downturn which we are seeing is the Chinese stimulus, which is keeping the commodity demand from China intact, and also the responses from various central governments and also central banks by way of a fiscal adjustment or by way of a monetary policy adjustment. These 2 appears to some extent, will cushion the global slowdown which we have seen. The impact of this global slowdown on the overall steel industry is concerned, again, declining steel demand because the steel-consuming sector basically will take energy or automotive. Construction sectors, infrastructure sectors are not doing well, but we are seeing a clear impact on the steel demand globally.

But in the first 5 months where numbers have been given by WSA, World Steel Association, the steel supply substantially has gone up, which is 5% as against the estimated demand for the entire year is

1.3%. But one comforting factor is that is the incremental steel production in the 5 months of the calendar year increased by 37 million tonne, but the entire increase in production is contributed by China alone, which is 38 million tonne by an increase of 10% in production. In spite of increase in production in China, We have not seen any big increase in the exports from China that is comforting. But one divergent thing which we observed is that the steel prices are declining. If I see the first 6 months of the calendar year, in U.S.A., the prices fell by 30%; and in the Europe, it is close to 7% to 8%. Similarly, in China, it fell by 5%. So there is a decline in steel prices across the regions. But at the same time, the iron ore prices we have seen that 70% increased in the first 6 months, 38% in the current quarter, that is April to June.

But the raw material prices other than iron ore, for instance, coking coal, in fact, even though there is a fall, but the fall is very marginal so there is a divergent trend. Clearly, we are seeing iron ore prices going up. Other raw material prices are not correcting. At the same time, demand is not robust, and the steel price is declining. That is the scenario we are seeing globally.

Domestic demand also got reflected a similar trend what we have seen in global markets. It added further 2 more factors to have an impact on the overall economy and also the demand is that lack of credit availability to the industry that is one major factor, either you call it as banking NPS or IBC cases getting delayed or NBFC crisis. Whatever may be the reason, but the industry is suffering. They are not getting enough availability of credit. Plus, the second reason which we are seeing is that all the government projects which are going on in the infrastructure sector that drives the steel demand, the release of money to various contractors and projects is not at the same pace as we have seen in the last year. So that also slowed down, to a large extent, the government projects. So these 2 together we have seen a significant slowdown in the domestic demand for steel.

Even though the numbers released by JPC, year-on-year is showing a growth of 6.8%, but quarter-on-quarter, we are seeing a significant fall in the demand. It appears to be over 5%. Over and above, the fall in demand quarter-on-quarter, the imports have not fallen that much, even though there is a slight decrease in imports, but what is, again, disturbing in that import analysis is that 66% of the imports are coming from FTA countries at 0% duty. The exports have fallen by 22%. So falling exports; imports, a very moderate fall; and a significant postpaid 0% duty; and the steel demand is not growing at the pace at which we all desired because of slowdown in the government expenditure; and lack of credit availability. This is the scenario in which the JSW Steel delivered this quarter 1 results. We have given the guidance of 16.95 million tonne of production, whereas we have achieved 4.24 million tonne, which is exactly in line with our guidance whereas, sales volume is 3.75 million tonne on stand-alone basis. We should have done 4 million tonne as per the guidance of 16 million tonne given for the year, so we are short by 250,000 tonnes.

In the case of consolidated volume of sale for 3.66 million tonne, production was quite good as per the guidance because volume of sales is lower, so there is accumulation of inventory to the extent of around 3 lakh tonnes in the overall quarter.

Considering the demand slowdown in India, we pushed more exports in the quarter, but that has been done in the latter part of the quarter. Our export sales were 6,17000 tonnes, which is a 34% growth year-on-year. The decline majorly contributed by auto sales. Our sales to auto sector were down by 20%. But again, there are certain green shoots which we are seeing are a little color coated where the increase in our sales volume was 14.8%. Our value-added sales stood at 49% in the quarter. Our Galvalume sales have gone up. So there are certain products which are doing reasonably well in the last quarter.

Notwithstanding the volume of sales is lower by 250,000 tonnes relative to our guidance, what is interesting in the result is that our EBITDA per tonne for the quarter on stand-alone basis is still at Rs.9,932 per tonne as against Rs.10,116 per tonne in the Q4 2019.

The net sales realizations year-on-year went down by 7.4%, and the quarter-on-quarter is more or less same. The cost quarter-on-quarter has come down by 2%. Year-on-year, it went up by 1%. So taking into account the following NSR year-on-year and also reduction in cost, the overall EBITDA for the quarter on a stand-alone basis is Rs.3726 Crores, which is Rs.9932 per tonne.

On the cost side, the company has done lot of things in this quarter. That is why the EBITDA margins are still healthy, notwithstanding the fall in prices.

The subsidiaries are concerned; the coated steel has done well. It posted an EBITDA of Rs.172 Crores. So other subsidiaries, Indian subsidiaries have done well. So overall, it contributed from Indian subsidiaries is Rs.408 Crores. Overseas, there is a negative operating EBITDA of Rs.265 Crores. U.S. plate and pipe mill has posted a positive EBITDA of $2 million, and the coal mines have contributed positive EBITDA of $2.2 million whereas, the Ohio, in Mingo Junction, has contributed negative $36.1 million, and in the case of European operations, it gave a negative EUR 4.2 million operating EBITDA loss. So total together, Rs.265 Crores negatively have come in by a way of operating EBITDA loss from overseas.

After netting out the negative EBITDA from overseas against the positive EBITDA from Indian subsidiaries and also taking out the profit on the inventories that have been supplied by JSW Steel to its subsidiaries and net-net, the consolidated EBITDA has come down by Rs.10 Crores. So as against Rs.3726 Crores stand-alone EBITDA, consolidated EBITDA is Rs.3716 Crores.

The profit after tax on a consolidated basis is Rs.1008 Crores. The kind of steps the company has taken in this quarter is that the captive iron ore supplied is 7,93000 tonnes. So that has made us to source our captive iron ore from our own mines that also kept cost at the reasonable level.

The coke which we bought in the previous year from the market, this year entirely it is captive coke, so we have replaced 220,000 tonnes of the imported coke with captive coke consumption and also reduced the cost. Similarly, pipe conveyors started working. We have transported 260,000 tonnes overall. It reduced cost per tonne of transportation Rs.155 per tonne in this quarter. Similarly, our fuel efficiency improved in this quarter. So these are some of the benefits which have come in, in the cost side. There are also certain pressures like nonavailability of APM gas, which we used to get for our Dolvi unit.

In this quarter, APM gas has become zero. So we have to buy the entire gas from the market that increased our natural gas prices. But what is also very important here is total inventory write-downs. I mentioned to you that the steel prices in the U.S. have come down by almost 30% in the half year and in the quarter by 25%. The scrap prices have also come down. So inventory write-downs which have come in from the U.S. operations were $25 million, which is equivalent to Rs.160 Crores. In India also, we have achieved cost savings. Therefore, we have to take some inventory write-downs, which is approximately Rs.690 Crores, so total inventory impact on account of lower cost is Rs.250 Crores in this quarter.

And the net debt of the company is Rs.47,767 Crores, slightly up compared to March 31, 2019. But our weighted average cost of debt has come down to 6.9% from 7.02%. Our debt to EBITDA is 2.72, slightly higher when compared to 2.43 as on March 31, 2019. Debt to equity was 1.35. Acceptances on revenue account are $1,215 million and the capital account is $345 million.

We have spent Rs.2800 Crores in the current quarter on the capex. The Dolvi project on track, we will be able to complete by March 31, 2020. Out of 6 mines which we have got in the category C auction, now the fourth mine became operational. So we have now got 4 mines. Another 2 mines will get operationalized in this year. So the way we guided that we will get around 4.5 million, 5 million tonnes of captive mines, it will happen. And also happy to say that the mines which are expiring on March 31, 2020, Karnataka government took initiative of auctioning those mines well in advance. So there were 4 mines put for auction. We are the successful bidder in 3 or preferred bidder in 3 cases. So those 3 mines in aggregate have resources of 93 million tonnes. Based on those resources, the current permit as per environmental clearances is 2.5 million tonnes, where it is possible to go up to 4 million tonnes. So in the next year, this is additional captive iron ore that would be available to us so 4.5 million, 5 million tonne from existing category C mines out of 6, these 3 mines will give us 2.5 million to 4 million tonnes. So total together will be 7.5 million to 10 million tonnes. That is the captive source of iron ore we can factor for 2020-2021 and for this year, 5 million tonnes from the captive sources.

Going forward, the way we are looking at is that the reason for slower growth in domestic demand is government expenditure, lack of government expenditures or release of funds by the government or lack of credit availability. At least, we expect government expenditures to revive, if not in this quarter, in the next quarter. So that should bring back at least 60% of the demand, which is there for steel in the government sector. The second area varying credit availability, now there is a recognition both at the Reserve Bank of India level and also at the Government of India level that something is required to be done in order to ensure restoration of credit availability to the industry. So we expect something will happen that would revive the steel demand, if not in this quarter, in the second half of this year. So with that, we are hopeful that we will be able to achieve our 16 million tonne guidance.

With that, I will leave it for any questions. 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 Amit Dixit from Edelweiss. Please go ahead.

Amit Dixit: Congratulations for a good set of numbers in challenging quarter. I have couple of questions. The first one relates to iron ore sourcing and coking coal sourcing. If you can split your iron ore and coking coal sourcing by imported source from Karnataka, Odisha? And finally, your captive, of course, you had mentioned, so that would be very helpful.

MVS Seshagiri Rao: So in this year, iron ore imports are zero. So we are not importing any iron ore. Karnataka is concerned; we are not getting anything outside Karnataka. We are able to source whatever is required within Karnataka. Then for Dolvi and Salem, Salem is partly from Karnataka, partly from Odisha, no imports. Similarly, Dolvi is Odisha and Chhattisgarh, nothing from imports. As regards to coking coal, Jayant?

Jayant Acharya: Coking coal, as you are aware for the metallurgical coking coal, we are importing. Last quarter, our average price levels which we reached was blended basis for coke ovens was about $195 on a CFR basis. We expect this to go down between $2 and $5 in this current quarter.

Amit Dixit: Okay. And the second question is with respect to some of the maintenance shutdown and we are seeing a slowdown in the industry. So are there any plans to advance any maintenance shutdown? Or kind of extend the maintenance shutdown in your plants in this particular quarter, Q2, which is seasonally weak?

MVS Seshagiri Rao: No. Not in the JSW Steel. There are no shutdowns which we wanted to prepone other than whatever is planned.

Amit Dixit: So what will be the planned shutdown in this particular quarter?

MVS Seshagiri Rao: There is nothing exceptional.

Amit Dixit: What about Monnet?

MVS Seshagiri Rao: Monnet, we have plant shutdown as we indicated to the stock exchanges by Monnet management. So basically, there the DRI and pellet plant are giving good margins even in the current market conditions. By operating on integrated basis, we are losing more money in Monnet because the TMT prices have fallen quite substantially in the marketplace. So what we thought instead of running integrated operation and whatever EBITDA that is coming in from pellet and DRI, we will spend in integrated operation, it does not make sense. So therefore, we decided to take the shutdown and then combine with enhancement of capacity of pellet plant which we are doing from 2 million to 2.5 million tonnes. Second is converting the TMT into alloy bar mill. So some expenditure, capital expenditure is required there so that we started spending. Oxygen plant, which was not working, so we are spending some money to make it fully operational, oxygen plant, with that, I think in the next 1 or 2 months, we will be able to achieve the strengthening of TMT mill and Oxygen plant getting fully ready. And whatever drawbacks that we have noticed in the blast furnace and the melt shop, We will complete that. Until that time, we operate only the pellets and DRI. So We will restart everything in the month of October, end of October. That is the plan in Monnet.

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

Pinakin M. Parekh: My first question is, just trying to understand your views on demand, given what we are seeing right now on the ground. In your view, Sir, how do you expect demand to trend from here? Is this what is happening destocking trend? Is this a cyclical slowdown? Or have we reset India's steel demand lower for the next few quarters? How would you look at it?

Jayant Acharya: There is no structural change. What we see here is a difficulty in certain sectors. So you have seen the automotive slowdown which, as you people are well aware, led by the NBFC crisis, lack of credit availability in the system. That unfortunately has taken longer time than what was envisaged by us or by the auto companies. We are hopeful that going into the festive season because some production costs have taken place in the automotive end. Going into the festive season, we would see some uptick in certain consumer-based automotive vehicles. And in the second half of this year, we will see some pre-buying before the BS VI kicks in on 1st of April. So those should give you some traction in the second half. As far as infrastructure is concerned, I think we are quite hopeful. The projects which the governments have announced, whether it is the Mumbai-Ahmedabad high-speed rail, the bullet train; the Mumbai-Nagpur Expressway; Mumbai-Delhi Expressway, which is being envisaged. There is the gas grid, which is being envisaged water supply to many areas, rural roads. I think there is a lot of traction which we see on the projects, which have been announced. We are hopeful that the funding to these projects will start from now because in the last year first half also we have seen that the infrastructure space was primarily funded by the public funding. We hope to see that in the second half of this year. That should pull your demand up. There are certain other sectors like appliances where the penetration is low. It continues to do reasonably well. We are seeing some traction on the solar power side as well. So these are areas of demand where we see positive. Automotive is a little sluggish, as I explained, and we expect that to pick up better from where we are today in H2.

Pinakin M. Parekh: Understood, Sir. My second question relates to the industry profitability has deteriorated in context to what it was last year. And while your demand outlook may improve, we do not know where the industry profitability will settle at. JSW is currently implementing a very large organic expansion plan and is also pursuing acquisition in the NCLT. If the industry profitability outlook does not improve, would JSW look or will take a relook at any of the capital allocation plans? And if not, will it be looking to change how it funds these expansion plans and acquisition plans?

MVS Seshagiri Rao: As Jayant mentioned, structurally, I do not think India's story is undergoing a big change because of slowdown in the last few months. So even in the last year as I mentioned that the entire growth is driven by government expenditure that got slowed down in this year, whereas in the last year, it was front-ended. So that is a major difference which we are seeing that cost to slowdown. So the India becoming a $5 billion economy by 2024, by 2025, we completely buy that story. So taking that into account, we have taken this view of expanding the capacity. So we are at the fag-end of expansion. We have committed last capital expenditure. We will complete this project by March 31, 2020. So we are just away from there 8 months, July 2019. So therefore, I do not think there is any change in that capex. Similarly, if I look at downstream, where we are expanding from 5 million tonne to 9 million tonne, tin plate Phase I is complete and PLTCM at both Vasind and Tarapur is in a very advanced stage, that gets completed in the Q3. Then all the color coating lines, which we are expanding from 0.7 million tonne to 1.7 million tonne, 1 million tonne more color coating lines. That is where a huge amount of growth coming in. Even in the last quarter, as I mentioned, there is a 14.8% growth in the color coating products. So therefore, this 1 million tonne extra is coming in. So the downstream, this 4 million tonne will really increase our ability to sell the product either in the domestic market or in the global markets. Then only 1 million tonne that is expansion pending at Vijayanagar plus CRM complex. So CRM complex is concerned, there is a slowdown in the auto sector. But if we see in the next 1-year time, all this will get revived. So we are very optimistic as far as India is concerned. So there is no capital expenditure moderation as far as organic growth in India is concerned.

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

Anuj Singla: Sir, first question is for Mr. Acharya. We have seen in the media reports that there have been some cuts in the domestic market on the steel side. So where are we in terms of spot prices versus the last quarter? And what should be expecting in the 2Q versus 1Q, if you can provide some color on that?

MVS Seshagiri Rao: Price correction has happened. Jayant will join. In the meantime, I will try to answer that question. There is a fall in the prices in India. We also corrected in the retail market. So we do not expect a further fall in prices in Indian market because the landed cost of imports even at current prices if we take, it is almost at the same level as that of landed cost. So do not expect a very big change in the prices from here on.

Anuj Singla: But Mr. Rao on a QoQ basis, I think prices we should be expecting some moderation in the second quarter?

MVS Seshagiri Rao: Yes. That is true because whatever price reductions that have happened in the month of May and June, the full impact of that you will see in this Q2.

Anuj Singla: Okay. Sir, in this context there were also news flow that the government is contemplating putting some regulatory measures, including a potential safeguard duty. Sir, any thoughts you can share on where are we in this process? And any thoughts you can share on what is the likelihood of that coming through?

MVS Seshagiri Rao: The industry has made very, very strong appeal to the government that the safeguard duty has to be considered, considering the current market conditions and the imports, which are happening into India from the FTA countries. So they have watched a lot of data, which we have provided to them. Recently, they wanted the cost data from all the companies. So that also was fully submitted to them. So they are examining the data that is given by the industry. So we are hopeful that the government will do something on the safeguard duty. Only as regards to RCEP, there are certain talks that government of India is keen to sign RCEP agreement. So again, there is a very strong representation from the industry that there should not be any RCEP. Industry what I mean entire industry, Indian industry, not restricting it to steel, but specifically steel. As to give you an examples of what happened in FTA agreement after it was signed in 2010. Therefore, no RCEP should be signed. If at all it is signed for any other compulsions, steel should be excluded from this. So this we have made very, very strong, representation. So hopefully RCEP will not happen the way it happened in the case of FTA.

Anuj Singla: Okay. Iron ore mining auctions are due in Odisha as well in March 2020. And it seems the auction process is yet to start. So there is one concern among investors that there can be some supply disruption from the iron ore mining site. In such a scenario, what is the fallback option for us if the scenario was to pan out and there is going to be extended disruption in Odisha? What offset is available to us in terms of our iron ore sourcing?

MVS Seshagiri Rao: So we have been very proactive in taking up this issue for the last 2 years with the government, both at Odisha, Karnataka and also in central government. So the kind of issues which are there that was stopping the state governments to go ahead with the auction that has been clearly clarified by the central government, by way of the clarification that they can go ahead and there is nothing that prevents from the legal point of view in auctioning the mines before its expiry. So Karnataka led the way. Now the Odisha announced another 44 mn tonnes will be auctioned. Even that auction in my view will start in August. So I do not see a scenario of disruption of the supplies. Last time also, I said even in the worst case scenario, there will be some disruption in the supplies because of stoppage of lease mines, which are expiring. There is so much of iron ore dumps which are available both in Odisha and also partly in Karnataka. The mining industry itself has said it has 127 million tonnes of the iron ore dumps which are there. Over and above that, even SAIL, Steel Authority of India is having huge amount of these dumps, which we requested the government to auction them in the worst case scenario of these mines, which are expiring, do not start by 2020. So in either case, I do not expect a scenario of disruption due to this event.

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

Indrajit Agarwal: Two questions. One is more a housekeeping. Is there any impact on our reported EBITDA because of Ind AS 112, the lease accounting?

MVS Seshagiri Rao: 116, no?

Indrajit Agarwal: 116, sorry.

MVS Seshagiri Rao: Yes, there is marginal impact. It is not very significant due to this distinction being taken away between operating lease and financial lease, now the impact in this quarter was Rs.200 Crores increase in debt, Rs.18 Crores increase in EBITDA.

Indrajit Agarwal: That is helpful. And secondly, right now, is there any change in the time lines of when we see the overseas acquisitions to break even, that is both Europe and U.S.?

MVS Seshagiri Rao: The U.S. Plate and Pipe mill, which has contributed $2 million operating EBITDA in this quarter. There is $4 million inventory loss we took in this quarter. Otherwise it could have been $6 million. Now one important event which is happening for Plate and Pipe mill is Phase 1 modernization of plate mill is getting completed in August. So that will increase the capability of the plate mill, particularly yield improvement which will happen. So with that, there is a good possibility of further reduction in cost and improvement in capacity utilization in the plate mill. The second important factor which is happening is now the Mingo Junction is producing slabs and also rolling in hot rolled coils. So what we decided is instead of waiting until the backward integration with the Baytown is complete, we wanted to integrate the Mingo Junction with the Baytown. So we started supplying the slabs from Mingo Junction to Baytown. So our plan in this year partly is to start in this quarter itself, the full integration of the slab requirement with Mingo Junction. Balance will be rolled into hot rolled coil. With that, we are achieving 2 things: One is full utilization at the Mingo. The second which we are accomplishing in this is that we are complying with the condition of built it and manufactured within U.S.A., so slabs are produced within the U.S.A. that will make the Plate and Pipe mill of Baytown to qualify for government orders within U.S.A. That will also do more realizations to that. So with that, we see a better improvement in the Plate and Pipe mill and good utilization in the Mingo Junction. So the Mingo Junction turning into positive operating EBITDA, we expect only in Q4 of this financial year. As far as Italy operations are concerned, capacity utilization is reasonably good. It is improving. There also we expect by Q4, we will be able to turn it into positive operating EBITDA.

Indrajit Agarwal: One follow-up on that any decision taken on Phase 2 expansion in the Plate and Pipe mill?

MVS Seshagiri Rao: Phase 2 expansion in the case of plate mill, there is modernization that is also on. That gets completed by 2020 December. Backward integration by hot end facility, that is EAF and all that is $350 million, which we have committed for that expansion. So that is also ongoing. We have not taken any call today. But pending backward integration, we wanted to integrate with Mingo, thereby melted and manufactured benefit will come.

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

Bhavin Chheda: Sir, what was the profit at the Amba Coke River and Salav in the quarter, EBITDA?

MVS Seshagiri Rao: Amba River is Rs.87 Crores, Salav is Rs.37 Crores.

Bhavin Chheda: And any other Indian subsidiaries also over and above the standalone entity contributing to the EBITDA? Or these are the only major ones?

MVS Seshagiri Rao: DCPL is there, that is Rs.89 Crores from DCPL.

Bhavin Chheda: Rs.89 Crores. Okay.

M. V. S. Seshagiri Rao: Yes. The total all, Indian subsidiaries together is Rs.408 Crores.

Bhavin Chheda: Rs.408 Crores. Okay. And Sir, you just said that both Mingo Junction and Italian company would be EBITDA breakeven by Q4 only?

MVS Seshagiri Rao: Yes.

Bhavin Chheda: Okay. And what was the landed cost of the coking coal in the quarter? And iron ore, if you can share?

MVS Seshagiri Rao: Iron ore, generally, we are not giving because from different sources that is coming in. As far as coking coal is concerned, last quarter was $197. Whereas, in this quarter, that is Q2, we expect another $5 reduction.

Bhavin Chheda: $193-odd in Q2?

MVS Seshagiri Rao: Right.

Bhavin Chheda: Okay. And Sir, what would be the total consolidated capex in FY 2020? And how much of that would be overseas and how much domestic?

MVS Seshagiri Rao: No, in India, we have Rs.15,700 Crores is the capex, which we announced. After that, we have incurred in the first quarter around Rs.2,819 Crores. We also opened LCs of Rs.880 Crores. As regards to overseas, $350 million, of that $180 million will be spent in the U.S. and not any other major capex in the overseas companies.

Bhavin Chheda: Okay. And Sir, last one. What were the revenue and capital acceptances in the quarter?

MVS Seshagiri Rao: Number, I gave already. It is $345m is the capex acceptance. $1215m is the revenue.

Moderator: Thank you. The next question is from the line of Vishal Chandak from Emkay Global. Please go ahead.

Vishal Chandak: Thanks for taking my question. Congratulations on a good set of result in this quarter. Sir, first question was with respect to your average steel price, which has moved up in this quarter, though we were expecting a downturn given what has happened through the quarter. So has the product mix really changed? Or what has changed given that exports have actually increased, I guess?

MVS Seshagiri Rao: Yes, in fact, part of the reason for realizations being maintained on quarter-on-quarter is majorly some of the export orders which was booked earlier, so they got executed, number one. Number two is hedging, which we have done on exports that gave us good realization in terms of exports. Plus similarly, the long-term contracts which we have, so they have not come down in this quarter, the prices have not come down. So this is the impact of lower prices in this quarter not fully reflected. So that will come in, in the Q2.

Vishal Chandak: Got it, Sir. And Sir, my second question was with respect to the Bhushan Power acquisition. So you have been mentioning that as a strategy, you would try to take Bhushan Power in an SPV, where JSW will have a minority stake. So we would avoid consolidation till the time we turn around this asset. That is a model that we have followed in our past acquisitions also. But hypothetically, in case, the acquired SPV is not able to pay off service its debt, would not JSW as a strategic investor support the SPV?

MVS Seshagiri Rao: No. The point is whatever debt we will be raising in that particular SPV is without recourse to JSW Steel. So there is no obligation, no legal obligation to support that company in case there is a problem. That is why even consolidation side, there is no need for consolidation as per accounting standard.

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

Ritesh Shah: Sir, my first question is for Mr. Rao. Sir, specific to Bhushan Power, what is the quantum of liability that has been under discussions? That is one. And secondly, is there an optionality to walk out the asset and will there be any breakout fee, if at all?

MVS Seshagiri Rao: No. As per the provisions of IBC, once the resolution plan is approved, there are very limited chances of getting out or withdrawing. That provision is not there at all. So if somebody defaults in implementing the resolution plan after the plan is approved, then I think there are not only penalties by way of losing the guarantees which we provided, but also there is a prosecution involved. So therefore, I do not think any resolution applicant, including JSW Steel, look for withdrawal once the resolution plan is submitted and approved. So therefore, all the news items which are coming in, JSW Steel is contemplating is to reduce the value, mid-value or to withdraw, those news items are not correct. Basically, what we sought in the NCLT is the immunity from the future liabilities or litigations that could come in because of the past actions. So if that is not sanctioned, then there is no obligation on us to implement resolution plan.

Ritesh Shah: Okay. That helps. Sir, my second question is for Mr. Nowal. Sir, there is an ongoing case between JSW Steel and Tata Steel on the extent of mining area which is where I think it is 50 square kilometers and what we have contested is for Tata having more than this. Typically they should not be allowed in the auctions. Sir, what is the status over here?

MVS Seshagiri Rao: I just wanted to clarify because I am aware of the background. There are 2 things here. As far as JSW Steel is concerned what we contested is when there was an auction which was announced in in the case of one iron ore mine in Odisha, we were also one of the bidders, and Tata Steel was also one of the bidders. So we just stated. We went to the court saying that they should not be permitted who is exceeding the specified limit within the act. So that is what we contested. And based on the litigation, which is there, Odisha government withdrew this particular auction. That is what we are aware of. After that, we are not aware of any other litigation pending today.

Ritesh Shah: Sir, but will this be a precedent for the upcoming auctions March 2020?

MVS Seshagiri Rao: Today law is that either it is JSW or X, Y, Z company. If somebody is having more than specified area in the act, and are not there act and rules, they are not permitted to have more mines. That is the rule today. So unless that rule is changed, I do not think anybody who is having more than 1,000 hectares of land or area as a lease, they will be able to participate, as per our understanding.

Ritesh Shah: That is helpful. Sir, last question for Mr. Acharya. Based on the existing trade measures that we have, how much is the further downside in local steel prices that one can see assuming, say, $490 of Chinese export prices. I am more coming from angle of, say, MIP, and can it bridge below Rs.37500 or Rs.38000, is it the base that we are looking at?

MVS Seshagiri Rao: No. Today, it is not $490, if I really look at it. Today's price, C&F, if we take, is almost $525 to $530 to India. That is if you off write 12.5% duty and the local transportation, plus port charges, if we add all that. The domestic prices threat from China is very limited. Only threat which we still feel is FTA countries. FTA countries' rupee is euro. If they reduce the prices below their domestic prices and start dumping into India, will be a threat from FTA. So that is where we are looking for this safeguard duty. All these facts have been brought to the government. And so we are hopeful that government will do something on the safeguard duty.

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

Rashi Chopra: Sir, I just wanted to confirm you mentioned that there were some old export orders that got executed at higher prices and some long-term contract prices that have not got negotiated down. So what is the percentage of volumes in the quarter that come under this category 1? Second is that what had been the decline in the months of May, June and July? And third is that bases where we are on spot prices and expectation that prices do not go down from here, from a debt-to-EBITDA perspective, where can we expect to exit?

MVS Seshagiri Rao: Yes. As far as the export orders, we book 2 months in advance. Therefore April and May is whatever exports were done, let us say, 617,000 tonnes for the export, 2/3 of that are at the old prices. Then as regards to the long-term contracts are concerned, whatever we have with auto companies and also some of the whiteboard industry, some are 3 months, some are 6 months. I mean, auto companies generally will do 6 months. So they will get, again, renegotiated in October. So that will continue those contracts are concerned. I do not know exactly that percentage. We will make available that percentage. The next question to you is relating to the debt EBITDA, debt to equity is concerned, we have 3.75% what we are guiding. So given the market conditions and the current trend of EBITDA, we do not expect that there is anything near to that we will reach. We will be well within that.

Rashi Chopra: Okay. Sorry, just the other question that I asked was what has been the quantum of fall over the 3 months on prices apart from what you already mentioned, May, June, July?

MVS Seshagiri Rao: Around Rs.1,500 per tonne.

Rashi Chopra: Sorry, did you say Rs.1,500?

MVS Seshagiri Rao: Yes.

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

Rajesh V. Lachhani: Sir, my question is on the pipe conveyor. How is it ramping up? And I actually missed the savings per tonne of iron ore. So can you please specify that?

Jayant Acharya: This pipe conveyor, just we commissioned it, and it is running very smoothly. So we are carrying around 10,000 to 15,000 tonnes per day. And we have planned the next 3 to 4 months in coming time, it will go up to 30,000. Once we get more mines and then it will increase our quantity on that. Secondly, the saving is around, you can say, it is roughly Rs.200 per tonne.

MVS Seshagiri Rao: In this quarter it is Rs.155, so we will be in that range.

Rajesh V. Lachhani: Rs.155 per tonne of iron ore.

MVS Seshagiri Rao: That is correct. That is what we achieved in quarter 1.

Rajesh V. Lachhani: And Sir, the other question is since we will be renegotiating in October with the auto industry given the lack of demand, and the prices are also down, so there would be increased possibility that the negotiations would be at much lower prices than what we have now?

MVS Seshagiri Rao: No, generally, the prices which we negotiate are based on the prevailing prices in the 6 months that would be applicable for the next 6 months. So whatever price drops that are happening in this half year, so that will be applicable for the next half. We will continue to have a bit of high realizations in this half year on the auto sector. But again, to make you to know what is happening in the auto sector, our auto sector sales in the quarter 1 have fallen by 20% year-on-year. Whereas, quarter-on-quarter, it went up by 5%. So therefore, whatever fall we have seen compared to the Q4, there is improvement in the Q1.

Moderator: Thank you. We will be able to take one last question. We take the last question from the line of Luv Sharma from Lombard. Please go ahead.

Luv Sharma Thanks for the opportunity. Just a couple of questions from me; I think during the start of the call you mentioned that there has been some credit crunch which the industry is facing. Are you referring to the steel industry or basically your customers? And if you can elaborate more what is the issue that you have been facing there? The second is also there has been some headline about you planning another U.S. bond issuance this year. So any thoughts on that would be useful as well? Thank you.

MVS Seshagiri Rao: As for the credit availability is concerned, it is applicable for the entire industry. It is not restricted only to the steel industry. If you ask anybody today availability of credit, both large and medium and small industry, banks are not lending and NBFCs are not lending. There is unwillingness to take decisions. That is also one of the reasons which we are seeing in the banking sector. This is also getting more and more pronounced from our suppliers and also the customers. They are asking us for more credit, and the suppliers are asking for advance payments. So this has clearly reflected the kind of credit squeeze that is there in the marketplace. Even if you see the deployment of sectoral credit that is being released by Reserve Bank of India, if you see where the increase is happening, the increase is not from the industry, it is majorly retail, personal loans, credit cards, that is where the increase in credit is happening or in Mudhra loans. I do not think industry is getting credit from the banking sector. So this is all pervasive. This I think has been brought to the attention of both the Reserve Bank of India and government about the ongoing nonavailability of credit to the industry. Second question regarding raising of funds with the enabling resolution which we have taken. So we will see the market condition as we have to raise money as a part of liability management or for funding our capex. Based on market conditions and interest rates, we will take the call. As on date, there are enabling resolutions.

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

MVS Seshagiri Rao: As far as the Q2 is concerned, generally this quarter is sluggish because of the monsoon. But there are some positives if we really see the macro side. One is monsoon has revived, so now it is all-pervasive across India. So whatever deficits we have talked about so far, hopefully that should be made up in the following 1 or 2 months' time. So that will give us more confidence that the rural India will do well and the second half in rural demand also will pick up. That is one positive we are seeing. The second one is government expenditure. Government expenditure, while we are more feeling convinced that it will restart; the budget approval has come from the Parliament. Now we are hearing that they are releasing the funds. Particularly, the bullet train project is concerned where the potential for 4 million tonne of steel is there. Contractors are approaching us for tieing up with them for giving a firm bid for that, for steel. So that funding is already in place from defense. So that project in our view will take place. Like this, there are a lot of projects, but really metro side, we are seeing the large traction. In the pipeline side, we are seeing traction. With that, we feel that the government expenditure will start flowing in, which will revive the steel demand. Both together, hopefully if not in this quarter, second half will do definitely better as far as India is concerned. Then in our case, the benefit of captive iron ore availability, plus coke batteries, plus the pipe conveyor, the fuel consumption, fuel improvement benefit, this should continue to do the benefit of lower costs, plus improving our product mix, particularly tin plate side, Galvalume, they are the 2 products which will give us better product mix going forward so whatever accumulation of inventory that is there, our plan is to unwind that inventory. So we are focusing majorly on reduction in cost and producing to the brink and fill and unwind the inventory. This is the focus. As far as prices are concerned, we will leave it to the market to determine. We will try to work on to ensure that we will be able to preserve the margins. Thank you.

Moderator: Thank you very much. On behalf of Motilal Oswal Financial Services Limited, that concludes the conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.