"JSW Steel Q2 FY18 Earning Conference Call hosted by Axis Capital Limited"

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Moderator: Ladies and gentlemen, good day, and welcome to the Q2 FY18 Earning Conference Call of JSW Steel hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nitesh Jain from Axis Capital. Thank you. And over to you, Mr. Jain.

Nitesh Jain: Thank you, Karuna. Good evening everyone, and welcome to JSW Steel's second quarter fiscal '18 earnings call. I sincerely thank management team of JSW Steel for giving us this opportunity to host the call. Without further delay, I think, I guess, I hand over the floor to Mr. Pritesh Vinay from JSW Steel. Over to you, Pritesh.

Pritesh Vinay: Thank you, Nitesh. A very good evening to all the participants. We have with us today the senior management team of JSW Steel, represented by Mr. Seshagiri Rao, the Joint Managing Director and Group CFO; Mr. Jayant Acharya, Director, Commercial & Marketing; and Mr. Rajeev Pai, the CFO.

We will start with a few minutes of opening remarks by Mr. Rao in the context of the results. And then, we will open for Q&A. With that, over to Mr. Rao.

Seshagiri Rao: Good evening to everybody. I welcome you all for the briefing of the second quarter performance of JSW Steel. Just to put in the context, the global growth outlook has dramatically changed between when we spoke last time and now – quite positive. Because of very positive investment sentiment across the globe, we are seeing a cyclical uptick as far as the global steel demand outlook is concerned. What is surprising or puzzling is the Chinese overall steel supply and demand situation. When everybody was anticipating the demand for steel within China will be flat, on a nominal basis as per WSJ, the steel demand in China grew by 12.4%. Even if you adjust the unreported numbers, the Chinese steel demand in the first nine months of the calendar year went up by 3%. So this in my view has changed the overall global steel demand outlook. The exports, even though have fallen from China overall, exports from Japan, Korea and Russia, which are export-dependent countries, more or less remain the same.

One important information which I would like to give you is with regard to ASEAN. For ASEAN countries, the production went up by 7 million tonnes. When production went up, their imports should have fallen by 7 million tonnes. But the imports from China and Japan and Korea to ASEAN countries came down by 10 million tonnes. So if Japan and Korea and China have to maintain their exports, then there is this 10 million tonnes for which they have to look for new markets. So, for these 10 million tonnes they're looking at India because of various trade remedial actions that have been taken by Indian government is at significantly lower level relative to what is happening across the globe in the steel pricing; and they have put more steel into Indian market. So in the Q2, the overall imports are at a level of 3 million tonnes, which on an annualized basis is touching 12 million tonnes, and was a matter of concern in the Q2. Particularly, if I look at China, the imports into India went up in the Q2 by 102% on quarter-on-quarter basis. What is the impact of these increasing imports into India in the Q2? When the global steel prices went up, domestic steel prices have not kept pace with the increase in the global steel prices. That is why for either the competition or for JSW steel, the overall prices remained more or less stable or flat in the Q2. In spite of the NSR being flat in the Q2, JSW Steel has done remarkably well in the Q2. We have reported a production number of 3.94 million tonnes. Sequentially, it is plus 1% and year-on-year, it is minus 1%.

Sales is one important item, where we have done very, very well. The consolidated sales at 3.96 million tonnes, which is the highest ever in the history of JSW Steel, showing a growth of 4%. When production is flat, we have achieved a very good number in terms of sales and that is due to reduction in the inventory by almost 2,11,000 tonnes. Just I wanted to add why production was low in the Q2 – two reasons. One reason is related to the introduction of GST which has come from 1st July. So as you are all aware, the iron ore is sold within Karnataka through auction. When the auction was done, monitoring committee used to invoice the buyer prior to GST. Once GST was introduced, if somebody has to get the set-off, that set-off has to be claimed electronically in the system online. Then who has to invoice is the question, which monitoring committee had asked the Supreme Court of India. Until that was clarified, they didn't do the auction. So that impacted the supply of iron ore to our Vijayanagar plant, where we have lost some production in the quarter two. And at the same time, the water shortage, which we explained in the Q1 continued in Salem. So that also impacted the Salem production. Because of these two constraints plus monsoon putting some constraints in the Dolvi unit, the production in the Q2 is more or less flat. I would like to clarify as regards to our guidance of 15.5 sales and 16.5 million tonnes of production. We are at a level of close to 47.5% to 48%. So whatever shortfall is there to the extent of 300,000 tonnes, we are reasonably confident that in the second half, we will be able to make it up, because these constraints, which I just explained are not existing in the second half.

As regards to the financial performance, our EBITDA for the standalone company is Rs.2,927 crores, which is 19.57%, Rs. 7,460 per tonne, which is a significant increase compared to the Q1 of Rs. 6,266 per tonne. The profit after tax is Rs.845 crores on standalone. The US subsidiary was impacted due to the hurricane, which hit the State of Texas. That's why the EBITDA contribution fell on quarter-on-quarter from $5 million Q1 to $1 million in the Q2. We expect it comes back in the Q3 and Q4. Coated steel performance also was impacted, but still it had made an EBITDA of Rs.141 crores in the Q2. But relative to the Q1, it fell. Two reasons. Reason one is, zinc prices in the Q2 went up by over $500 per tonne. That had an impact on the cost of production, plus HR coil prices went up, but the coated product realizations have not gone up at the same pace as that of the HR. So that impacted the EBITDA for the coated. There was little impact in ARCL because of the GST. GST payable on the sale of pellets and coke is 2.5%. Prior to that, the VAT was 5%. So there was a benefit of 5% as a part of the incentive scheme prior to GST. So that has become half in ARCL. That's why the EBITDA was lower in ARCL relative to Q1. Salav unit has done well. So on a consolidated basis, these subsidiaries have contributed Rs.108 crores. Consolidated EBITDA Rs.3,036 crores, the profit after taxes was Rs.836 crores, which is a 29% growth. The consolidated debt was Rs.42,764 crores, which is lower compared to the Q1. We've brought it down. Debt-to-equity improved to 1.87 times. Debt-to-EBITDA is 3.67 times. Acceptances $1,305 million on revenue account and on Capital account was $209 million.

One or two more developments are relating to Supreme Court hearing on removing the cap or increasing the cap in the State of Karnataka. We have represented to the Supreme Court that after the Category C mines have been auctioned, the cap of 30 million tonnes is not allowing to start the mining in Category C. That request has been heard by Supreme Court. All the hearings have been completed. The order is reserved. We're expecting a favorable order from the Supreme Court. Once that order comes, within two months, we'll be able to start two mines. And within five months, we'll be able to start the balance three mines. That is the status on the starting of own mines in the State of Karnataka.

The second development, which is also positive is FDF, forest development fees. As you know, FDT was introduced by Karnataka state at 12% on the base price of iron ore, which was contested and the industry won in Karnataka High Court. Karnataka High Court ordered the State government to refund and not to charge in future, which was a substantial cash flow benefit and P&L benefit, which would come to JSW Steel. But it was contested again by the State government in the Supreme Court. Supreme Court has given a stay on the refund, but they have not reversed the order. The hearings are yet to happen in the Supreme Court on this. Pending that, the Karnataka government retrospectively amended the Act and issued a notification of FDF. They called FDT as the Forest Development Fees and again imposed 12% and started charging. We again contested this levy of forest development fee through notification. We have got a favorable order from the Honorable High Court of Karnataka. So this is again a positive. It was asked to refund whatever amount that has been paid. We've paid Rs.254 crores so far in the form of forest development fee and we have debited Rs.77 crores to P&L account. So this amount also will come back to the Company in future if State government of Karnataka doesn't go for an appeal to the Supreme Court again and Supreme Court does not reverse the order.

So these are the two important developments. Our CAPEX program is going as per the schedule. But the CAPEX incurred in the first six months of the year was around Rs.2,196 crores. Cash outflow was around Rs.2,000 crores. So it will ramp up in the second half. We are placing orders and making down payments and the work has started on the ground. So it will get ramped up in the next few months. So this is the status. And if any questions are there, we are open to answer.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin with the question-and-answer session. First question is from the line of Sumangal Nevatia from Macquarie. Please, go ahead.

Sumangal Nevatia: Thanks. First question is with respect to realization. If you can comment, what was the change in realization during the quarter? Because what is reported up here is a bit lower than what we were estimating.

Jayant Acharya: So in quarter two, if you see our EBITDA per tonne vis-à-vis quarter one, it has moved by about Rs. 1,200 per tonne. Now, on realization – we were able to realize some improvement in the domestic sales, other than the contractual, which were locked in till September. So those will be basically renegotiated in the second half. Other than that, there were some exports, which had a prior booking, which has pulled down some NSR. So these are the basic two reasons.

Sumangal Nevatia: Okay. So given the pattern of these changes, do we expect a decent recovery in 3Q then?

Jayant Acharya: Yes. So the contractual business will get renegotiated for October-December wherever we have quarterly contracts and also for half-yearly contracts due for renegotiation. In case of exports, similarly some of the bookings which were pertaining to earlier period which have got executed will be replaced by fresh booking. And so, there would be some improvement which we are expecting on both these counts. On the spot side, I think we have captured some price increase, as I said. But at the same time, I would like to highlight that the increased imports, which have come into the country, especially in quarter 2 were about 56% more than quarter 1 and 48% more than quarter 2 last year. At a rate of about 1 million tonnes a month imports have come into the country. Certain products have really impacted us in terms of realization because they have been very low. Particularly in the flats, we have seen coated products like color-coated products coming in from countries like China, Vietnam at substantially lower rates than the domestic prices, due to which the prices in the spot market, our monthly pricing has remained under pressure. Similarly, some of the flat products in hot rolled and cold rolled segments have come into the country at a cheaper level, primarily because the exports from the countries like China, Japan, and Korea into the ASEAN have reduced and some of that steel has found its way into India. So that's a matter of concern, which we are examining and will take up appropriately with the authorities.

Sumangal Nevatia: Understood. Next question. We feel very high focus on value-added steel and specialty products. Now, this forms close to 60% of volume versus 52%, 53% last year. So if you can just share how do you see this increasing over the next two years? And what could be, just a ballpark, incremental contribution from these value-added products in the EBITDA, say?

Jayant Acharya: So we have tried to give you a flavor of the value-added and specials in two buckets. The value-added, as we have been guiding earlier, stands at 37% in quarter 2 this year vis-à-vis 34% in quarter 2 last year. However, there are certain special products in the hot rolled category, wire rod categories, and in the rebar category, which we were not capturing earlier. We have now started highlighting these. These include especially products like oil and gas application line pipes; they include automotive applications in hot rolled; they include electrode qualities; they include fastener qualities in wire rod; they would include corrosion-resistant rebars, etc., which are getting captured in this 23% special products, which has been highlighted in this quarter. And you will notice a note, which defines these products. Which products this 23% consists of have been highlighted in our analyst presentation. We will be tracking this henceforth. So this is to give you a feel that our business is more driven by the specialty and value-added. And therefore, the volatility in the segments in which we operate are likely to be lesser. And we are trying and more and more efforts are being made to reduce the commodity component and increase these components as we go along. So if you see quarter one and if you see quarter two, you see a trend of 58% to 60%. And I think our efforts will be to maintain these kind of ranges as we go forward.

Sumangal Nevatia: Understood. Can I just ask one bookkeeping question? Just last one. If you see the contribution of other subsidiaries, that is when I subtract Standalone, Coated and US EBITDA from the consol, this quarter there is a loss of 38 crores versus 180 crores profit last quarter. So is it possible to share some breakup and what is driving this?

Seshagiri Rao: It is because of elimination of profit on the stocks lying with Uttam and also with Coated. So that is the reason why there is an elimination in the consolidation, which would come in. But that would get booked as and when the sales happen in future.

Sumangal Nevatia: So what is the sustainable level of this number?

Seshagiri Rao: So as we have been mentioning about sustainability in the case of ARCL, Salav, and other units, I don't think there is any problem. Only coated side, zinc prices, which has impacted us in the Q2. Otherwise, we could have maintained. Number two is, NSR has not kept pace in the coated products for the reasons, which Jayant outlined. Imports coming in at substantially lower prices. These are the two reasons why there was a issue in the coated. So in future whether it is possible to maintain? The downside to this EBITDA, we see very less possibility.

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

Pinakin Parekh: You mentioned the Supreme Court has reserved its judgment regarding the iron ore cap that is there in Karnataka and if it were to allow the cap to be increased, the company can bring its mines into production. Sir, I just wanted to understand, if the cap is increased, would it also allow JSW Vijayanagar to implement the crude steel capacity expansion plan? Because those approvals are also constrained by the overall mining cap?

Seshagiri Rao: You are absolutely right. Because as I mentioned last time that we have an approval to expand capacity from 12 million tonne to 16 million tonne. That is one. Number two is when we talked about BF-3 modernization where we have given the CAPEX program, we said BF-2 will be shut down. So if we continue to run BF-2, then if we can make investment in the downstream like SMS and the rolling facilities, it is possible to increase the capacity quickly. That we are not doing because of the lack of iron ore. So if Supreme Court increases the cap, further auctions will happen, and then there is a possibility of expanding at Vijayanagar, yes.

Pinakin Parekh: So just to take this point forward. If the courts were to approve an increase of the mining capacity, theoretically, sir, how much time would JSW take to implement that capacity expansion? Because it's a brownfield, it's existing facilities. So can it come quicker than the ISPAT expansion by March 2020?

Seshagiri Rao: Expansion, we have to work out what would be the cost of expansion and how long it will take, but it would be quicker. That much I can tell you.

Pinakin Parekh: Okay. Secondly, sir, given that there is all these news about distressed state assets coming into auction now, obviously you cannot tell us what assets JSW is bidding for. But just trying to understand, would JSW look at these assets with partnership with somebody? Or would it be looking at these assets on its own, if it were to look at distressed assets?

Seshagiri Rao: Yeah, we are looking at various structures, if at all we decide to go ahead. For instance if you see, we were looking at partnership at a consortium. So, that kind of model is preferable in my view in the current context, where it will take some time to turn around the targeted asset. So, those models are actively pursued, keeping into account the kind of financial policies which we have listed out, that is debt-to-EBITDA, debt-to-equity. Therefore, that may be the strategy which we would like to pursue.

Pinakin Parekh: Sure, sir. Just to push this point forward. In India, given that you are closest to the process, do you see any of these stressed assets moving forward in the resolution process over the next six months? Or do you think in your view, this is more an 18 to 24-month process?

Seshagiri Rao: My view is slowly, gradually changing after having met these stakeholders. There is a huge amount of commitment we are seeing from the government, RBI, and the banks to complete this process within the framework laid down by NCLT. Earlier, we were expecting there could be some litigations that could come in. But that possibility is gradually reducing because they're making amendments. Like Ministry of Corporate Affairs clarifying that any capital restructuring as a part of the NCLT process does not require shareholders' clearance. So that type of things will remove the bottlenecks that could come in. And similarly, whatever problems that have been pointed out by various stakeholders, either to the government or to Reserve Bank of India in terms of bidding criteria, evaluation criteria, and also amendments that are required in the Income Tax, Companies Act, and also GST, they're being very actively pursued by them. So that gives reasonable confidence that the process will be credible.

Moderator: Thank you. We take the next question from the line of Bhavin Chheda from Enam Holdings. Please, go ahead.

Bhavin Chheda: Sir, question on the iron ore pricing, the NMDC and other Karnataka price, difference between the Karnataka and Chhattisgarh on the auction, can you give us some guidance? Has this reduced over last six months? Because NMDC has been charging premium on the Karnataka e-auction. Has it reduced, remained stable, or has it gone up? And what the current difference is for the similar grade ore?

Seshagiri Rao: As regards to the premium which they are charging in Karnataka over Chhattisgarh price, that has not changed. So that continued even now in the auctions, which we talked about around Rs. 600 per tonne. In addition to the Rs. 600 premium over Chhattisgarh, the premium of NMDC over Orissa, again another Rs. 1,000 per tonne, that also is continuing. There are two premium suits we're talking. One premium is the price charged in Karnataka over Chhattisgarh NMDC price. That is Rs. 600. And then, Chhattisgarh price of NMDC over Orissa price – Rs.1,000, for similar grade.

Bhavin Chheda: So NMDC Chhatisgarh is higher by RS. 1,000 versus Orissa ore.

Seshagiri Rao: Correct. So overall, we are losing Rs. 1,600 per tonne base price, plus taxes on that. So that is the kind of difference because of constraint in the supply of iron ore in Karnataka.

Bhavin Chheda: Right. Sir, my second question is on the VAT credit note which you have given in the notes, the Rs.99 crores number. So that is accounted in revenues, or it is accounted in other operating income?

Seshagiri Rao: It is other operating income that is consistently we have been following. Because as per the incentive scheme, they have committed at the time that they would protect the VAT in the post-GST. That's why we have taken that into account. There could be an upside here, which I would like to point out. SGST is 9%, whereas earlier VAT was 5%. There is a possibility that this 5% can be increased to higher amounts.

Bhavin Chheda: This accounting is for 5% only?

Seshagiri Rao: Right.

Bhavin Chheda: Okay. So they remain upside, unless the state government issues the order. And what I understand is that you had a similar VAT credit in Karnataka for couple of million tonnes. So how have you accounted that in the quarterly result?

Seshagiri Rao: It is same, exactly the same.

Bhavin Chheda: Okay. So this Rs.99 crores includes that state number also? Because there is no note on the Karnataka number. So I was trying to figure out if there is any provision made there and clarification there.

Seshagiri Rao: Karnataka is under loan scheme, that's why it is not coming in P&L. CST is not there. Because for CST earlier, there used to be a refund scheme in Karnataka. Now CST has gone. Now since CST will not be protected in the post-GST scenario, that is not taken into account.

Bhavin Chheda: So there also you have accounted at the rate of 5%?

Seshagiri Rao: No. In P&L, there nothing is accounted, because it is under a loan scheme – it is a deferral scheme.

Bhavin Chheda: Okay. That's accounted by a balance sheet?

Seshagiri Rao: Correct.

Moderator: Thank you. Next question is from the line of Amit Dixit from Edelweiss. Please, go ahead.

Amit Dixit: My question pertains to the realization. How did the realization move in flats and longs separately? And what is the trend that you're seeing in Q3?

Jayant Acharya: So in flat steel, if you have seen internationally, the numbers have improved over, let's say, May, June to September. It did correct a bit in October internationally, coming from China; but now is stable while upward vis-à-vis April-June quarter. As far as longs is concerned, if you were to look at the domestic space, because it gets mostly defined in domestic, the prices are range-bound and they have not really gone up much. They have been in a particular range only. We do expect that there may be some improvement as we go into the quarter four. But long products may be range-bound. For flat products, there could be some improvement. But the pressures which are there from imports, especially in the coated, is a cause of concern, which we are trying to monitor as we go along. Especially if you look at certain color-coated products which are coming in from China and Vietnam, the discount is in excess of 15%-16% vis-à-vis our price.

Amit Dixit: Okay. So, sir, just to push this point forward a little bit. In case of color-coated and galvanized, since the negotiations are due, I mean, from the auto end of the contracted guys, so what sort of price hikes can you expect going ahead in Q3?

Jayant Acharya: It would be difficult to quantify a number. As far as color-coated is concerned, it would be going mostly to the appliances or to the construction industry. That doesn't find its way into automotive. But, yes, appliances also get contracted. So there would be some kind of a review mechanism on that. But as I said, color-coated is getting weighed down by imports and specifically from China, Vietnam, and some other countries which are pricing it at a very, very low level. That is a concern there. Similarly in GI also imports into the country have gone up. And that is putting pressure on both these products. As far as cold rolled is concerned, I think we have seen some rise in imports there as well, but it is range-bound. So we are looking at these, and discussing with the customers. So in automotive, there is a negotiation process which takes place, because it is there on a quarterly and half-yearly basis. So we are in the process of negotiation. There is a case, which we feel, for some improvement in this period, quarter three or second half, vis-à-vis last at least to automobile and ancillary and appliances.

Amit Dixit: Okay. Sir, second question is with respect to the distressed assets. Regarding their relative attractiveness, is there some metrics like, EV per ton or something, some threshold that you might have set?

Seshagiri Rao: No, we have, of course, metrics like return on capital employed and the synergies which we can bring in and the future potential. So these are the metrics which we apply, and also specific investment cost per tonne. We will definitely look into that while deciding any inorganic growth opportunity.

Amit Dixit: Is there a number to it or, I mean, you just decide it on case-to-case basis?

Seshagiri Rao: Yeah. It is a combination of these factors. So one number I can't give for one item.

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

Rajesh Lachhani: Sir, my question is regarding the iron ore mine. So once you get the favorable judgment from Supreme Court, you will be starting this iron ore mining. Sir, I just wanted to understand how would it impact the profitability in terms of, like, would it be lower cost than what you're already sourcing? And what would that number?

Seshagiri Rao: Yeah, at least this premium of Rs. 600 which I am paying, that won't be there.

Rajesh Lachhani: After grade adjusted?

Seshagiri Rao: Once the captive iron ore is done, we have to pay a premium to the market price. Premium to the market price in the sense, premium that would be on IBM average price. Supply goes up in the market. Automatically, there will be a pressure on the prices. So the Rs. 600 will disappear once the supply start coming in from the Category C mines. And also, if they remove the 30 million tonnes for A and B, where a lot of mining companies went and requested that they have found new reserves or additional reserves by exploration, therefore, they should be permitted to produce more than what they were initially permitted. So therefore, there are two things which would be hopefully decided by the Supreme Court. One is cap for Category C and Category A & B enhancement from 30 million. So based on that, supply goes up. The benefit would come not from the point of view of market price, but the premium between Chhattisgarh and Vijayanagar at least would disappear.

Rajesh Lachhani: Understood. And, sir, my second question is, while your production was impacted due to water shortage and GST-related impact, the sales were modestly up. So just trying to understand if the production weren't impacted, the sales number would have been still further up?

Seshagiri Rao: Of course, it would be. Whatever we have produced, we have sold, plus we have reduced the inventory by 211,000 tonnes. If we had the opportunity to produce more in our three locations, then the sales could have been higher. That's why we have guided for 5% growth. This we would have achieved definitely.

Rajesh Lachhani: So sir, what can we expect for FY19?

Seshagiri Rao: FY19, little far away from now to guide. So what we can we reassure you that we are working to achieve whatever guidance we have given for this year of 16.5 and 15.5.

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

Sanjay Jain: Could you give us some sense on these cost movements, like coking coal cost movements and iron ore cost movements for the next 2-3 months?

Jayant Acharya: So on the coking coal side, I think last time, we had guided that the prices would come down by about $15 odd. And we have been able to reduce the prices quarter-on-quarter in that range. Going forward, while the coking coal prices have come off their peak now, but I think the benefit of that would play out more in quarter four. And in the next quarter, we would be seeing some higher-priced cargos coming in. So there would be an impact in terms of cost increase for the blended coking coal by $5 to $10.

Sanjay Jain: Right. And in case of iron ore, NMDC has cut some prices. So how the average is going to play out?

Seshagiri Rao: Yeah, iron ore side, the prices would be little lower than the Q2.

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

Ashish Kejriwal: Sir, first question is on blended realization. So when we have seen an increase of around Rs.1,200 per tonne on EBITDA, is it possible to explain how much it is because of higher steel prices? Or on a blended basis, steel prices have fallen?

Jayant Acharya: I think as I've explained in one of the questions that on the flat products side, on the market prices, we did get some increases. It was a little depressed in certain products, especially on coated, because of the imports. As far as long products were concerned, they have been range-bound. But exports, as I explained in the last question, there have been past booking, which we have executed in this last quarter. So this quarter, there has been some impact because of that.

Ashish Kejriwal: So on a blended basis, on average basis, have we seen blended steel realisation lower than first quarter?

Jayant Acharya: So it's been about flattish if you were to look at the combined impact between domestic and export.

Ashish Kejriwal: Okay. And, sir, secondly, if I'm looking at again, I think Mr. Rao explained a bit that part of the loss in other subsidiaries was because of elimination of profit from stock lying with Uttam Galva and JSW. But if I'm looking at last quarter, it was much above. And before that also, you were in the similar loss making range. So is it safe to assume that last quarter was one-off and we will see continuous phenomena in console minus standalone as well as JSW and US operation entities?

Seshagiri Rao: I mean, it will be very difficult to say it won't be there in future. The consolidation adjustment depends upon the cost of production and the HR coil prices at which the transfer price happens. Transfer price is market price. So at the end of the quarter when you have to make adjustment, the profit that would remain in HR coil price depends upon the pricing that is being done in the quarter. Therefore, it will be very difficult to say that would be zero. But is it one-off for this quarter – yes, it is extraordinary relative to what generally is there.

Ashish Kejriwal: No, I'm talking about last quarter. The last quarter, that number was Rs.180 crores.

Seshagiri Rao: Yes. Last quarter was higher, it is one-off.

Ashish Kejriwal: Okay. And, sir, lastly, in last 3 quarters, we have been looking some trading benefits as we are buying iron ore in standalone for subsidiaries and booking profits. But that was absent this quarter. So any specific reason for the same?

Seshagiri Rao: No. That profit is majorly coming on account of hedging. That's why the benefit continued to flow. Those hedging positions are not there today. Therefore, in future, it may not be there.

Ashish Kejriwal: Sir, because your purchase of traded goods, that is coming out on 47 crores versus in the range of 320 crores to 360 crores in the last three quarters.

Seshagiri Rao: Yeah. That is the reason why the profit could accrue on account of hedging that has been done by one subsidiary because hedging positions today are no more giving that type of benefit compared to the spot price versus hedging position. So it won't be there in future.

Moderator: Thank you. Next question is from the line of from Abhishek Poddar from Kotak Securities. Please go ahead.

Abhishek Poddar: Just one question on the long products side of business. Post GST, are you seeing any benefit flowing to yourselves from secondary producers losing market share because of better tax compliance? And secondly, also, on the demand side of long products, any color on the pockets of demand showing any signs of improvement? Thanks.

Jayant Acharya: No. So we have not seen any benefit coming out of the GST, especially in the long product side yet. I think the long product side continues to be oversupplied, and the secondary sector continues to rule at a price differential to the primary producers. And that thing may continue for some time till the coal costs for primary producers keep the prices high. So I don't think that we will get much benefit in the near-term. The second impact is because of the seasonal construction activity going down. We do expect that there would be some improvement as we go into some more infrastructure build in the second half. So the demand side should pick up. So we are hopeful that at least from a demand perspective, things will improve on the long side as we go into the second half.

Abhishek Poddar: Sir, any comment on the demand for long – from real estate versus infrastructure, how do you see both of these sectors doing?

Jayant Acharya: For real estate, especially in the residential, we don't see too much of activity. In the commercial space, selectively activities are there, but seasonal impact has slowed it down in the last quarter. And if you were to look at long products other than rebars, like wire rods; there the demand has been reasonably stable. And going forward into this particular quarter, we expect the demand to be slightly better than what it was in Q2, as far as wire rods are concerned. Similarly, in alloy steel bars and rods, we have seen some improvement in demand coming in the last 1 or 2 months, especially from the auto sector. So that should play out in this quarter as well.

Abhishek Poddar: Yeah. Sir, just last bit on the infrastructure space, are you seeing any uptick, especially in the north, any projects coming in?

Jayant Acharya: We are hoping. We have seen news in terms of infrastructure investment coming on the ground. So we are expecting that there would be some uptick. But we need to see that. As far as rebars is concerned, I would like to say that domestic prices have been range-bound, have been under pressure. Therefore, for rebar we need to see. I think my sense is that the positive impact would play out in January-March, not before.

Moderator: Thank you. Next question is from the line of Dhawal Doshi from PhillipCapital. Please go ahead.

Dhaval Doshi: You said the contractual obligations, which were the quarterly contracts as well as the half-yearly contracts and the exports, impacted the overall realizations this quarter. Sir, would the entire 26% of exports be hit? Or as on what portion of the total sales this quarter was more of a drag and that could see a bounce-back in the next quarter?

Jayant Acharya: It's very difficult to go into that granularity. I think the sense which I was trying to give is that in the international markets since the prices had dipped in the month of May, June and then it went up after that, certain bookings which were there would naturally be executed in the quarter 2. So there has been some impact because of that. As we go into the quarter three, we see that the prices have stabilized. So we see, therefore, a possibility of improvement. But having said that, I would always qualify to say that the Chinese uncertainties or uncertainty of dumping by any other region could influence the prices.

Dhaval Doshi: Also, sir, so what percentage would be those contractual obligations? I don't think, sir, that will be difficult to give, sir.

Jayant Acharya: So it's in the range of one quarter, about 25%. Overall.

Dhaval Doshi: Okay. Sir, lastly, with regards to do the absolute steel price jump that has happened, so can you quantify what has been the hike that we've taken from July to September? Or how much would be the current spot prices up from the Q2 average?

Jayant Acharya: Product-wise, I think it's a little difficult to specify that. But I think when you speak to our investment guys, maybe our investment team will try to give you some flavor on that if it's possible. But it would be difficult to quantify.

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

Ritesh Shah: Sir, we were looking for some inorganic growth in Italy. Sir, any update over here?

Jayant Acharya: Not particularly Italy. I think we have been looking for inorganic opportunities globally, since there are opportunities in the steel space in various parts. So we have been looking at opportunities, including Europe and Italy as well. You're aware about our efforts on Ilva. And that has finally gone to ArcelorMittal, so that's over. With respect to anything in Italy, there is nothing concrete right now which we can discuss.

Ritesh Shah: Okay. Sir, my second question is, you highlighted on the Chinese dumping, which is going on and specifically on color-coated. So are there any talks with the government wherein we are looking for incremental MIPs. Sir, that's the first question. And, secondly, on pure HRC basis, on input parity basis, domestic prices are trading at a premium or discount – if you could provide some color over there, sir?

Jayant Acharya: So on the HRC side, the domestic prices are at a discount to the Chinese landed prices as you see the prices today. That is one. Secondly, on the imports of color-coated, especially where material is coming in from China and Vietnam, color-coated was earlier not under the BIS. We had taken this up with the government over the past few months to put more and more products under BIS. This time, a list of products have been announced, including color-coated, where the BIS would become effective from January third week. And that should contain to some extent (the imports) and the customs should be able to control substandard product dumping, which are taking place in those categories.

Ritesh Shah: Sir, is there a MIP over here on color-coated?

Jayant Acharya: So MIP is non-existent. It's a question of a reference price under anti-dumping. So there is a reference price mechanism. But anti-dumping is country-limited, as you know. There is an anti-dumping from China, but there is no anti-dumping prevalent from Vietnam. And Vietnam also is under a Free Trade Agreement. Therefore, the impact of that is multiple. So that's why I'm saying that especially for countries like Vietnam, the discount to the domestic prices for color-coated is as much as 15% - 16%.

Ritesh Shah: That helps. And, sir, you said that Chinese prices have been trading at discount of domestic prices. Sir, would you like to quantify on absolute basis?

Jayant Acharya: The Chinese prices are currently higher at present. If you were to check the current imports from China, they are higher than the domestic prices by about 8%.

Moderator: Thank you. The next question is from the line of Pallav Agarwal from Antique. Please, go ahead.

Pallav Agarwal: Sir, you're referring to the anti-dumping duty reference price for color-coated. So is $822, at these levels, does it deter imports, or it's at a fairly low level so which really does not make a difference to the import quantities of color-coated?

Jayant Acharya: No, it does not deter import. Our prices are higher by almost, as I said, 15%, 16% over the imported numbers, and it is not deterring imports. So primarily, the imports are coming in from China and Vietnam, which is impacting us. And they are above the reference price level of $822, but it is still 15%, 16% below our prices.

Pallav Agarwal: Okay. So basically, with the pressure on color-coated, spreads could continue in 3Q as well? Would that be…?

Jayant Acharya: So one positive here is the BIS, which would come in, because some of these countries and some of the suppliers have been supplying substandard coating. Substandard paint coat on top of this and, basically, to some extent cheating the customers. So that would get contained, I think, over a period of time once the BIS is enforced from January.

Moderator: Thank you. Next question is from the line of Bhaskar Basu from Jefferies. Please go ahead.

Bhaskar Basu: Just one question on the color-coated imports, which you talked about. I just want to understand how much of your volumes is basically color-coated. If I remember correctly, it's only about point 0.2 million, 0.3 million tonnes annualized. Is that right or…?

Jayant Acharya: No, our total capacity of color coated is 0.6 million. And out of this, just to give you a broad flavor, one-third is exports and balance is domestic.

Bhaskar Basu: Okay. And besides color-coated, is there any other product, which is also getting affected?

Jayant Acharya: Yeah, some part of Galvanized is also getting impacted.

Bhaskar Basu: Okay. My second question is on the Karnataka mine issue. Any sense on what kind of relaxation on the cap could be possible from the 30 million tonnes, whether that can go up to 40 million or 35 million or any number there?

Seshagiri Rao: The entire argument which have gone from the industry that 10 million tonnes separate limit for the Category C mines. As regards to the A and B categoty, the recommendation of CEC is to increase the cap from 30 million to 35 million.

Bhaskar Basu: Okay. So effectively, both put together can go up to 45?

Seshagiri Rao: If it is accepted by the Supreme Court. But the amicus curiae has a different view that 30 million should not be increased; and the Category C is okay.

Bhaskar Basu: Okay. Any timelines for this?

Seshagiri Rao: Anytime, because arguments are complete by all the parties and the order is reserved. It's more than two weeks now. So we are expecting anytime.

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

Prateek Singh: Just wanted to know how do we see the year-ending debt level and the gearing ratio? Also, can we see more working capital release, going ahead?

Seshagiri Rao: Gearing ratio, so now we are already below 2.75 debt-to-EBITDA. On debt-to-equity, we are at 1.87. So we will bring it down definitely below these levels by the end of the financial year. More working capital release – I don't think more working capital will be released because Uttam is being operated by us. So, more and more working capital is going into that. We are also looking at another one or two downstream stressed companies to operate on a similar model. So therefore, more working capital may be required here.

Prateek Singh: Understood, sir. Thanks. Also, sir, and I think you've mentioned it earlier also. Can you just repeat the level of acceptances, both capital and revenue?

Seshagiri Rao: Acceptances, capital is $209 million and revenue is $1,305 million.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand over the floor to the management for their closing comments. Over to you, sir.

Seshagiri Rao: Thank you very much. At the end, I would like to reassure you that we will try our best to achieve the guidance. This 3 lakh tonnes of shortfall in the first half, we will make up in the second half. Second half appears to be far better compared to the H1 because there are no constraints we are seeing relating to water and also on the iron ore availability. Taking that into account and also the demand point of view, we are more optimistic for the second half. So in the second half, we expect better performance over H1. Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of Axis Capital Limited, that concludes this conference call. Thank you for joining us. And you may now disconnect your lines.